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INTERNATIONAL AGRICULTURAL TRADE NEGOTIATIONS IN THE MID-1980'S

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HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-NINTH CONGRESS

SECOND SESSION

APRIL 2, 1986.—SACRAMENTO, CA

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INTERNATIONAL AGRICULTURAL TRADE NEGOTIATIONS IN THE MID-1980's

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WEDNESDAY, APRIL 2, 1986

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Sacramento, CA.

The committee met, pursuant to notice, at 8:50 a.m., in room 127, California Department of Agriculture, Hon. Pete Wilson presiding.

Present: Senator Wilson.

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Ladies and gentlemen, would you take your seats, please, so that we can get underway.

Good morning, ladies and gentlemen. I'm Pete Wilson and I'm pleased to welcome you to this morning's U.S. Senate Agriculture Committee field hearing on international agricultural trade issues.

It's hard to believe that an entire year has passed since I held hearings last April in Fresno to hear from California agriculture about the then ending trade title of the 1985 farm bill. That testimony was extremely productive, in my opinion, because I was able to incorporate many of the suggestions which I heard that day from producers into amendments to the farm bill.

Looking over the list of this morning's distinguished witnesses, I anticipate an equally useful hearing, with the testimony that will be entered into the record providing the basis for valuable legislative and administrative action in the future.

I am pleased to chair today's hearing in Sacramento, because this year the United States will be involved in several complex agricultural trade negotiations which will, for better or worse, affect California agriculture very deeply and for a very long time. So, it's appropriate that we meet here in Sacramento; not only the capital, but the heart of this great valley that has produced such agricultural largess. We want to see to it that the producers who are efficient producers are able to market their produce. That will be the focal point of our hearings this morning.

In particular, I ask the witnesses who have been invited this morning to focus upon three major issues: First, the new round of the GATT international trade negotiations, including agricultural issues, which are scheduled to begin this fall. Second, the upcoming free trade area negotiations with Canada and perhaps someday in the not too distant future with Mexico. And third, the enlargement of the European Community to include Spain and Portugal.

The commodities and farmers represented here today will all be affected by one or more of these negotiations and we need to get a head start on these issues so that we are adequately prepared to deal with them in the negotiations.

For example, the California agricultural trade community must organize for the new round of international trade talks in the GATT [General Agreement on Tariffs and Trade]. These talks are scheduled to begin in September; but as you may be aware, the preparatory committee is having difficulty even with preparing the agenda and selecting the site to formally launch the talks.

Developing the agenda for the new round of GATT talks is more difficult than ever because of the broad range of new subjects to be included—everything from services, intellectual property rights, and safeguards to standstill and rollback agreements on protectionist measures. Much of this will be uncharted territory. Just because agriculture is not a new issue in the GATT talks does not mean that our task of finding workable solutions is going to be made easier. I wish that we could anticipate that familiarity with the issues would make it easer. I do not anticipate that.

In the Tokyo round of GATT talks, concluded in 1979, agricultural issues, as usual, created the biggest problems. Indeed, the GATT has not been able to establish any truly effective rules for trade and agriculture, primarily because the principal parties cannot, have not, agreed on any basic truths of what constitutes fair trade in agriculture.

The subsidies code made an attempt to clarify one of the most serious problems in agricultural trade, the use of export subsidies. In my opinion the definition included in the code only aggravates the problem.

The GATT rules permit the use of agricultural export subsidies as long as those subsidies do not result in "an inequitable share of the world market." Not surprisingly, this loose definition, which more closely represents a goal than a standard, has been abused by the European Community, enabling it to become the world's largest exporter of beef, poultry, eggs, and dairy products.

The new GATT round will also have to revise the GATT dispute settlement process. As California's citrus, raisin, walnut, poultry, and canned fruit industries know all too painfully well, the process in its current form does not work. It does not resolve disputes. It has served rather to aggravate them.

In an attempt to unravel these problems, GATT Ministers in 1982 established a Committee on Trade and Agriculture to make recommendations for improving international agricultural trade rules. Over the past 3 years the Committee has tried, against all odds, to develop an agenda for agriculture in future international trade negotiations.

That Committee has identified three major types of problems in agricultural trade—subsidies, market access and phytosanitary or technical barriers. California exporters are all too familiar with each of these unfair and discriminatory trade practices, whether it's canned fruit production subsidies in Europe or unreasonable fumigation requirements on California produce in Japan.

Our first panel of witnesses this morning will discuss the new GATT round, among other issues. I am particularly pleased that State Senator Jim Nielsen has taken time from his busy schedule to be our lead-off witness. He will be followed by another old friend, Clare Berryhill, the director of the California Department of Food and Agriculture. They will offer their insights on agricultural trade issues. They will be followed by Henry Voss, representing the California Farm Bureau Federation, and Ms. Jean-Marie Peltier, from the California State World Trade Commission.

Moving from multilateral to bilateral negotiations, some of our witnesses today will discuss an issue closer to home—the pending free trade negotiations between the United States and Canada. Many observers feel that if these talks result in a free trade agreement, it would not be surprising for Mexico to be selected as the next bilateral agreement candidate.

The precedents in negotiating the Canadian agreement and the extent of the free trade to which we agree will have both immediate and long-term implications for California agriculture. It is especially important to assess these prospects before the actual negotiations begin.

On December 10 last year, President Reagan notified Congress of his intention to conduct free trade negotiations with Canada. Within 60 legislative days—by mid- to late April—the House Ways and Means Committee and the Senate Finance Committee must both concur with the proposal for negotiations to begin.

The general public often fails to realize that trade between Canada and the United States represents the largest two-way trade relationship in the world. In 1985 this trade totaled nearly $114 billion, almost 27 percent more in value than trade with Japan. In fact, the province of Ontario alone received more United States exports in 1984 than did the entire nation of Japan.

This two-way trade with Canada has grown rapidly in the 1980's, increasing about 36 percent since 1981. Unfortunately, the United States merchandise trade surplus with Canada of $7.6 billion that existed in 1981 has deteriorated and today we do not enjoy, but suffer a deficit of $23.9 billion in 1985, an 18-percent decrease.

In agricultural products, 59 percent of Canada's imports came from the United States in 1984, with United States fruit and nut exports alone worth 850 million Canadian dollars. Since Canada is only 47 percent self-sufficient in fresh fruit products, it is a valuable market for California products. U.S. vegetable exports worth nearly $60 million are part of this important two-way trade.

Since 1979, however, Canadian agricultural exports to the United States have increased nearly 55 percent. As our witnesses will attest, most of the increase has come in sensitive commodities such as hogs, potatoes, and lumber.

Obviously, both the United States and Canadian Governments will face domestic political difficulties in negotiating a bilateral free trade agreement from the industries that could be adversely affected by a free trade agreement. They are entitled—in fact, obliged—to be heard. In the United States, as we see, agricultural issues will be particularly sensitive.

That is why I am pleased that representatives are here today from California's timber, pork, and wine industries to convey their concerns at the outset of these lengthy negotiations. All these industries are in the midst of seemingly intractable bilateral trade conflicts with Canada. Understandably, they may be less than enthusiastic about jumping on the free trade bandwagon.

Your testimony will assist me to defend California's legitimate interests in the Senate before the Finance Committee and with administration officials during and before these talks.

Finally this morning, we will turn to agricultural trade negotiation with our transatlantic partners. As you are aware, Spain and Portugal became the newest members of the European Community on January 1 of this year. Over the next 10 years they will integrate their agricultural policies with those of the EC. However, the first and most costly transition measure went into effect March 1.

On March 1 the EC began to apply its variable levy tariff system to grain imports in Spain and Portugal. This new import system will increase by 30 to 80 percent the cost of buying American grain in those new members of the EC.

Specifically, the EC has unilaterally withdrawn the 20-percent tariff binding that Spain grants to United States corn and sorghum imports and has replaced it with EC's open-ended, discriminatory "variable levy" system.

In Portugal, the United States filled nearly 100 percent of that country's grain import requirements worth $408 million in 1984. Now, however, under the terms of the accession treaty, Portugal will be required to buy at least 15 percent of its grain from Europe.

In addition, Portugal introduced quotas on oilseed imports, which may set a dangerous precedent in other countries. Overall, the Department of Agriculture has estimated that the new variable levies on grain and the oilseed import quotas will jeopardize at least $900 million in United States exports to Spain and Portgual.

This new grain policy is only a startling precursor to the other adverse consequences in store for U.S. farm exporters and especially for California. As Spain and Protugal implement the EC's generous agricultural subsidy programs, other California markets in Europe will also be threatened.

Abundant subsidies to encourage production will create a flood of Spanish and Portuguese fruits, nuts, and vegetables in the EC, quite possibly destroying what remains of California's export market in the northern European countries. In other words, not only is direct market access in Spain and Portugal immediately threatened, but in the future American farmers will also face subsidized and duty-free competition from Spain and Portugal in the remaining EC countries.

Since the economic consequences of enlarging a customs union, like the European Community, affect all of its trading partners, the General Agreement on Tariffs and Trade contains rules which require the EC to compensate its trading partners for their loss of prior trade concessions resulting from the new or enlarged union. Or to put it in another way; as Spain and Portugal become members of EC, the resulting loss in trade must be compensated to those who have experienced that loss.

Under the rules of the GATT we have the right to negotiate for that compensation; or failing to receive adequate compensation, the

United States has the right to withdraw an equivalent amount of trade concessions from the EC.

Early last month I sent a letter to President Reagan to urge him to pursue that right to compensation under the rules of GATT by "withdrawing substantially equivalent trade concessions." In other words, by retaliating against the European Community. Twenty of my Senate colleagues, both Republicans and Democrats, cosigned this letter, which demonstrates how important this issue is to all sectors of American agriculture.

As the United States begins negotiations with the European Community on the enlargement issue, I will continue to press the administration to obtain for American agriculture the compensation to which it is legitimately entitled. Your testimony will help to increase the effectiveness and success of my efforts in that regard.

I strongly encourage California's agricultural producers to submit a list of commodities which they consider eligible for trade compensation in the form of duty reductions or relaxed trade restrictions.

There is one essential point that all three of these negotiations—those having to do with the GATT, the free trade negotiations with Canada and the accession of Spain and Portugal to the EC—all have in common. California agriculture must organize for these upcoming negotiations. California agriculture must express its interest at every level of government. You must let those in Sacramento know so that they can be part of the lobby, the advocacy group that asserts your fair and legitimate interests. You must call upon your elected representatives. Happily, we have one with us this morning who understands California agriculture and understands the vital stakes pending in these upcoming negotiations. We must see to it that he is not the sole spokesman.

You must call upon the U.S. Trade Representative, Ambassador Yeutter; the new Secretary of Agriculture, one long familiar to this group as Clare Berryhill's predecessor when then Governor Reagan involved Dick Lyng in a simpler kind of agriculture for California in a simpler time when we were less threatened. You must speak very clearly to the Secretary of the Treasury and to the Department of State.

All of these will have some bearing upon the shape of the American posture with respect to these crucial negotiations and for our negotiators to be adequately armed. There will be a profound effect from the effort that you make not only this morning in this hearing, but hereafter in telling your story. It will literally affect the future of our industry. And that industry is critical to the health of California.

With that and with apologies for a lengthy opening statement, but one I think was dictated by the fact that these three negotiations are critical, I thank all of you for making the effort to attend, for taking the time to prepare testimony.

Now I will call upon our first witness, who is that distinghished representative whom I described a moment ago, the distinguished State senator, Jim Nielsen.

STATEMENT OF HON. JAMES NIELSEN, A CALIFORNIA STATE SENATOR

Senator NIELSEN. Senator Wilson, first of all, I speak and present my comments as both State senator and as a farmer. I commend and thank you for your very personal and long-standing interest in my industry, agriculture, as well as forest products, also important to my district.[1]

You have exerted a leadership role in the United States Senate on many matters, but most particularly including the Wine Equity Act. I certainly commend you for that.

You understand trade, Pete, and we're certainly proud that you would come out here and hear what we have to say, as you now are so involved in those negotiations that so affect us.

In American agriculture we're in the throes of a historic change in public policy. Probably the most historic and probably more profound that even occurred through the Depression and after, as evidenced in the farm bill. One of the key things that we're going to be doing is having our farmers produce for the market more than to produce for Government. I happen to think that's a good thing. I think California agriculture in the long run will benefit by those general policies.

Obviously, as you discuss the issue of trade and note the importance of subsidization, we know that in our glorious and pure world we'd like to be all free traders and produce only for the market. But we know other nations don't operate that way and we compete on a world market.

So, we can't ever eliminate subsidies and many of the things that are going to be talked about here to protect and strengthen our agriculture. But it is important as Federal farm policy that we encourage to the best degree we can our farmers to produce for the markets, not to produce for Government.

We also as farmers are going to need to pay an awful lot more attention to marketing than we have paid now to production. Our preoccupation has ever and always been to produce and be the best producers. We have become that, we are unrivaled. But in that process we have neglected largely the marketing. We need to do that. That's something that as farmers we're going to have to devote so much more time to. And now we are going to have to become more managers, I think, than farmers.

The State has a role, too. The director will comment on some of the things that he has exerted leadership in. I certainly commend him and the Governor for being willing to open trade offices in Tokyo and London to support legislation to directly promote agricultural trade. Ironically, I've learned to be a bit of an international trade negotiator myself.

Senator Wilson, you've exerted a lot of leadership in the very important issue called unitary tax in Washington. I have exerted that leadership here in the State senate in California. Unitary tax is something we need to get rid of that will enhance our State if we do. It is to the good of all.

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[1] See p. 59 for the prepared statement of Mr. Nielsen.

However, a year ago January, as I continued to meet with trade delegations, I said to these individuals that it is not sufficient to me that you will invest in California. I want more. I want greater trade access to ag, forest, and high-tech products. We have barriers.

Well, I had a trade delegation a week literally in my office during the course of last year. It was best said by one of the first people I talked to, a consul general from one of the countries. He said, oh, but, Senator, unitary tax and trade are not related; not related issues. We deal with unitary here, we deal with trade here. I said, well, consul general, I appreciate that. But, sir, I understand negotiation and you negotiate best when you have something someone wants. You want unitary relief. We don't have any necessary compelling need to do that in California. If we're going to do it, we need something. The problem that my farmers have and our timber raisers have and our high-technology producers have are access to your markets.

So, that has become and is a part of our negotiations on unitary tax. We need that.

I'm also interested in the free trade discussions that you're going to be holding with Mexico and Canada. As Secretary Berryhill knows, because he hosted the Secretary of Agriculture of Mexico here about 3 weeks ago, they certainly have an interest and they have a need.

I've often wondered about the awesome power of a consortia of Mexico, Canada, and the United States in agriculture if we could get together and to what degree we can. We know we can't in all matters. But if there are areas where we can agree and we can have some kind of a collusion, then I think that might be very helpful. But I do understand the realities and I don't think that I'm overly confident.

Most assuredly, though, we've come to a position of also concerning ourselves with protecting our own agriculture. As we now change our focus to more devotion on the market and selling our product, that has caused us to want to look after our own, so to speak.

I remember the difficulties we had with olives and tomatoes about 3 years ago with Spain and Israel and the free trade discussions at that time. Hence, we are very, very sensitive to it. We were very sensitive to Spain and Portugal and all the things, Senator, you so adequately outlined to us.

I've heard these kinds of stories from the Common Market and I've heard the threats of retaliation from the British if we don't get rid of unitary tax. I've had discussions, as you have, with the White House about this issue and I think that it behooves us to talk tough in our trade now. I've often been critical that our Federal policies regarding trade were more dictated and governed by the Department of State than by the Department of Agriculture. I am not so naive as to think that's going to necessarily change.

But what can change, I think, is that we bargain tough. That's the message that I think you're going to be hearing from our agriculturalists and forest products producers, as well as many other industries as these GATT negotiations go on and as we have dealings with the Japanese.

I am a free trade oriented person and I happen to believe that protectionism doesn't really ever serve the common good and it would hurt us in many regards. But tough bargaining does not. I think those are the kinds of messages that I hope everybody's going to be bringing to you today, the issues and items. You asked, Senator, for an inventory from these individuals as to what kinds of things that they want. I think that they can adequately express those to you.

What I think we have to offer is this bountifully productive agriculture in the State of California and certainly bountiful minds with the ability to understand a new market orientation; a community of nations, as well as our own production right here. I think we can overcome these difficulties we have in this time right now of agricultural lack of viability, if you will. If we get our producers producing for those markets and we sell our products, Senator, I think we're going to do quite well indeed.

I certainly appreciate being here with you today and frankly rather flattered. Because when I came to the Senate, we didn't really seem to have a State role in trade and I was often told when I said we should have one that the State has no business in it, constitutionally we can't and it's all the matter and purview of the Federal Government.

I think you have seen here in California that over the last very few years we've gotten very active as a State under the leadership of many like Director Berryhill and others. It is an issue that is alive and well in the legislature and high on the minds of individuals, because we understand its impact on this State in areas other than even agriculture and forest products, of course.

So, Senator, I would close in saying I hope this information is going to strengthen our hands in those international negotiations that we can go view our trading partners in other nations as that, good trading partners, wherein you may have these alliances where we can cause them to break down some of their barriers because we do talk tough and we will enforce some of our tough talking. But we don't want to do it in a way that will close our doors to them or theirs to us.

I think in that spirit of cooperation we can proceed where all will prosper, all will profit and American agriculture, particularly California agriculture, will be very vital again and quite soon.

Thanks for your help, Senator Wilson.

Senator WILSON. Thank you very much, Senator Nielsen. One question before you go, if we may detain you just a little longer.

Last year the California Legislature enacted some legislation that I thought was particularly useful. It created a parallel cooperator market development program, parallel to the USDA program. The point you just made, I think, was well made by the enactment of that legislation. I think that there is—although the primary responsibility rests, as you pointed out, with the Federal Government—a real need for coordination and cooperation of the kind that I must add I've enjoyed both with you and with the State administration; specifically through Director Berryhill and through the Governor's representatives in Washington.

I'm curious as to whether or not there is anything currently pending in the legislature beyond the unitary tax measures that you've described that addresses the general concerns that we have this morning.

Senator **Nielsen**. Well, Senator, yes, indeed. As I've said, the introduction of the unitary tax hasn't brought the foreign countries to their knees, but it elevated to raise the issue, and I think it's helped us in those international negotiations.

There are not a lot of things we can do in the unitary bill, vis-a-vis trade. I have exhaustively explored that. But there are some things.

What we do have going on, though, is the moneys for promoting agricultural trade. It is a very modest first step. Director Berryhill and I tried to conspire to get $5 million and we weren't successful with that amount, but we came up with a lesser amount last year. What does appear to be clear in the legislature is a willingness to continue that kind of support and promotion for agricultural exports.

Again, I might note for the importance of agriculture in this State that that's a very modest beginning, but I believe that that support will sustain and over a period of time we will be able to increase those levels.

In addition, in the Governor's budget as submitted, he has put in $750,000 to open these trade offices in Tokyo and London. I think that's going to give us a profile in working then with the World Trade Commission that has done some good work, working with that moneys that we have provided to promote agricultural trade and having those offices.

I characterize these, Senator, as first steps. I believe you're going to see us over a period of years take many more steps. The bottom line, again, is the State finally has accepted a rightful role in trade.

Senator **Wilson**. Thank you very much, Senator Nielsen, for your excellent statement. We will insert your written statement in the record in its entirety.

I couldn't agree more emphatically with the point that you have just made. Particularly, the opening of those London and Tokyo offices is a very significant first step toward giving California the kind of representation and advocacy on the scene in the European Common Market and in the Far East that really is essential to allow us to compete as merits the kind of produce that we are exporting.

So, thank you very much for the very strong leadership that you are exercising and the very good work that you're doing and the cooperation that you've extended to my office. We are very grateful.

Senator **Nielsen**. Senator, thank you for your interest in our industry in California and the good job you're doing. Pete, it's a pleasure working with you, sir.

Senator **Wilson**. Thank you.

Now let me invite to the witness table the director of the California Department of Food and Agriculture, Clare Berryhill, and the special assistant to Mr. Berryhill for trade promotion Jim Iso.

Gentlemen, you are most welcome. We're here to hear what you have to say. I know that you have the strongest feelings about the subjects that we're discussing today.

Mr. BERRYHILL. I have very strong feelings, Senator. I, too, want to welcome you to California. I want to publicly say how much your support has been to California agriculture. You've really led the fight for us.

Senator WILSON. If I may take a moment. I probably shouldn't, as busy as this schedule is this morning. But I can't help observing that life plays some interesting tricks on people.

As I sit here in this elevated, if not exalted position, I must reflect back many years ago when, having acquired all of the vast seniority of 2 years in the State assembly, I welcomed a new member who had taken Jack Veneman's seat in the special election, Clare Berryhill. I asked to have him serve on a committee that I was then chairing. It was a brand new Committee on Urban Affairs and Housing. Clare said to me, "What in the hell do I as a farmer know about urban affairs and housing?" I said, "Don't worry, no one else knows anything either," which we then abundantly demonstrated.

But I think that the interesting thing is that some years later I am actively involved, both primarily because of my representation of California, but also because I chose to serve on the Agriculture Committee. Once again we are involved in a common venture and somehow it's clearer to me now what it is that we should be doing than it was then. It's a very comforting thing to work not only with old friends, but in the case of Clare Berryhill, someone for whom I have had an immense respect for many, many years. He is well known for his integrity and directness and I must say, also, for the intensity with which he has attacked problems as the Director of Agriculture.

STATEMENT OF CLARE BERRYHILL, DIRECTOR, CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

Mr. BERRYHILL. Well, thank you for those kind words, Senator. I certainly think we have a good team and it's nice to have a California U.S. Senator that understands our problems and is willing to fight for us.

I refer to some of the recent things that you've done and that's the fighting the additional excise tax on California wine, which would be devastating to California.

I'm particularly pleased with what you did in the Korean situation where you really pointed out a country that has a tremendous trade surplus with us and yet has gone the other way in closing their doors to our agriculture imports. I think it's a disaster that we in this country allow that to happen and then turn around and give them free access to our markets. So, I'm pleased with your leadership there and many other areas since you've been in Washington. I hope we will continue to have a good relationship.

I have a prepared statement and I will read part of it, then submit it for the record.[1]

California's agricultural economy, of course, is heavily dependent on foreign markets and their loss is evident in sharply curtailed income and farm and ranch failures. Barriers to trade, the high value of the dollar—and, fortunately, we are seeing that begin to devaluate, which is going to help us—and foreign competition that is often subsidized—I want to emphasize that foreign competition that is subsidized. We feel we can compete in a fair world, but we can't compete with subsidized foreign areas—they're creating a serious economic situation in California's agricultural sector. The decline of agricultural exports value from $4.2 billion in 1981 to $2.9 billion in 1984 is the result of these negative influences.

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[1] See p. 60 for the prepared statement of Mr. Berryhill.

California's leading agricultural exports are cotton and almonds. In 1984, 70 percent of the cotton and 53 percent of the almonds were sold in international markets. These percentages were higher in previous years. On the average, 1 acre in 5 of California's crop land is now dependent on foreign sales.

California agriculture has experienced sharp declines in exports. Wheat and rice exports have both fallen to less than half of their 1981 peak. The impact of trade barriers, competition from emerging foreign producers selling well below our high dollar value prices and economic adversity among our buyers are all contributing to an extremely difficult position for California ranchers and growers. Without foreign markets, many will be going out of business. I think we're seeing that happen now and, hopefully, this will be flattening out.

Historically, California's leading agricultural export market was Europe. With the formation of the EEC, we gradually lost a high percentage of this market due to the common agricultural policy. Their system of open-ended variable tariffs has been discriminatory and devastating to nonmember nations.

Now our leading export market is the Pacific rim countries. They take approximately 62 percent of our agricultural exports. Japan is our largest single market, taking 31 percent of our agricultural exports. Even with these markets we are still faced with tariff and nontariff barriers which impede the flow of our commodities.

We are now confronted with another new and serious issue—the entry of Spain and Portugal into the EEC effective as of January 1986. This will adversely affect California agriculture in two ways:

We export rice, cotton, walnuts, prunes, and safflower seeds to Spain and Portugal. Their entry into the EEC will bring them under the same common policies that heavily contribute to the loss of the European market. We expect to lose a high percentage of our trade with these two countries as we did with the other EEC members.

Even though this will be detrimental to California agriculture, the most important and severe effect will be an anticipated decline in our trade with EEC members.

Spain produces many of the commodities that we do. Until January 1986, Spain and Portugal competed in the EEC on a similar basis to California. With both of these countries included in the EEC, they will receive preferential treatment in the sale of their agricultural products. They will also receive encouragement to produce more of the EEC's requirements.

They will have the advantage of both close proximity to the EEC and no tariffs in a few years. This will give them impetus to expand their production of almonds, citrus, wine, walnuts, strawberries, avocados, fresh fruits, and vegetables. As Spain, particularly, obtains a competitive advantage in the EEC, this will reduce our exports to these countries even further.

Our country advocates free trade. Unfortunately, in many cases, this turns out to be unilateral free trade with minimal to nonexistent duties or other restrictions on incoming agricultural products to the United States. At the same time our agricultural products encounter significant barriers if we export to these same countries.

When we get into the wine situation, Senator, that has always been a thorn in our side here in California. We open our markets to foreign imports and we run against every barrier in the world and high tariffs going the other way. That's just one example.

We should advocate fair trade rather than free trade. Under fair trade, products would have the opportunity to move in either direction with identical restrictions. If we could ever accomplish that, I think we would be off and running.

Bilaterally free trade agreements between the United States and Canada and the United States and Mexico would conceptually qualify as fair trade. As appealing a concept as these are, it does contain inherent problems. First is the problem of superficial equal access. This is similar to the one-horse and one-rabbit theory. Mexico and Canada would receive free access to a market of 234 million people having a gross national product of over $3 trillion. In return, to what would the United States receive free access? This question must be seriously considered before the final decision is made.

Second, free access does not address the issue of Government subsidies. Most of California's agricultural commodities do not receive any Government subsidy. It would be difficult, if not impossible, for one of our agricultural industries to compete against a foreign government. This is also an important question that should be addressed before a final decision is made.

Agriculture has historically not fared too well in GATT negotiations. I think that's an understatement. I don't think we've fared at all. Our negotiators seemingly place a low priority on agricultural products. It appears that agriculture is continually offered as the proverbial sacrificial lamb to achieve nonagricultural concessions. This is particularly true of our specialty crops in California. Over the years I think that we have been practically not even considered in these negotiations.

What little agriculture appears to gain in negotiations is usually paper victory because of the flagrant violations of the GATT rules. We've seen this happening in more than one situation in the EEC with our citrus and then the walnut situation.

The role of the United States is clear. We must unequivocally take a strong stand at the GATT to protect our rightful position of world trade. We must address the GATT violations and ensure that agriculture maintains a priority status during the negotiations.

U.S. agriculture can no longer support other industries, nor can it compete at a disadvantage in the world marketplace. If we fail to take a strong stand, American agriculture will face an untenable future.

We have taken a positive stand, as was mentioned before, in California for the first time to try to enhance our export ability. One of the things, of course, was the legislation that was passed that provided $5 million annually for matching funds with industry to promote our agriculture.

I'm pleased to introduce you to Jimmy Iso, who is out here to help us. He is being provided by our FAS friends from Washington to help us put this program together on similar lines of FAS.

Another interesting thing that we did and was one of the fun things that we've done in trade, we enlisted the *Golden Bear*. As you well know, Senator, that was our maritime training ship. That now has become our floating agriculture display.

We took a trial run this year to Australia and it turned out to be very successful. Next year we intend to go into the Orient with the *Golden Bear*. It has attracted a lot of attention and enthusiasm and a lot of press coverage because of its uniqueness. They have the wine tasting and invite the buyers on board. It was a very successful experiment and we hope to expand that further, too.

In conclusion, I would say U.S. agriculture is hurting and California agriculture is hurting and there's no room for complacency, passive postures in today's domestic or foreign trade world.

Thank you very much for the opportunity to be here today. I look forward to working with you to try to resolve some of these problems in the future, Senator.

Senator **Wilson**. Thank you very much, Clare. I very much appreciate your being here and your statement.

Let me invite Mr. Iso to make whatever supplementary remarks he wishes.

Mr. Iso, for the record, I think it would be useful, when others are reading of this field hearing, for you to place in the record some of your background, because it's extensive and it's very relevant. I'm particularly pleased that you're going to be directing this new State cooperator program.

STATEMENT OF JAMES ISO, SPECIAL ASSISTANT, TRADE PROMOTION, CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

Mr. Iso. Thank you, Senator. It's certainly a pleasure to be here today and, indeed, a pleasure to be a part of the California trade development team.

In reference to my background, I've had some 20 years association with Foreign Agriculture Service, both in the capacity as a cooperator and as an agriculture attaché.

I spent most of my career in Asia although in short assignments. I have spent time in other parts of the world as well. My last assignment was in Singapore. My position was the agricultural trade officer at the American Embassy. I covered six countries of Southeast Asia from there to perform market development and market promotion functions for U.S. farm goods.

An earlier 11 year assignment in Japan under the FAS program availed me of the opportunity to make a close overview of the trade issues there. As we have all experienced over the years, a very complex and difficult market exists there.

The economic postures of protectionism certainly aren't restricted to Japan, Korea, or Southeast Asia. We have witnessed the many forms of protectionism in many parts of the world, and Asia is no exception. Our legislators, however, have wisely acknowledged that a measure to offset this would be to carry out trade development programs of our California agricultural products into the heartland of their market. The AB 1423 program will not only assist our development of trade to these established markets, but will also assist our exporters, many new to foreign trade, to participate in this trade.

AB 1423 will provide an opportunity for California exporters to new opportunity markets. Example: Latin America, Middle East. The Southeast Asian market is relatively new to our U.S. exporting interests. Our focus in Asia historically has been to the lucrative Pacific north area—Japan, Korea, Taiwan, and to a degree the Philippines.

However, Southeast Asia certainly is one which I envision having great potential for the future and the new program will assist in introducing new food products.

I'm delighted to be a part of the California team. I would like to try to bridge some of the areas of the FAS market development program with the State program through AB 1423. I hope that I can make a valid contribution. I'm certainly delighted to be a part of Director Berryhill's operation. Thank you.

Senator WILSON. Thank you very much, Mr. Iso.

Let me just ask if you would provide for the record a statement from your office that outlines what your agenda is with respect to the implementation of AB 1423.

For our purposes here this morning, while I'm asking you to do that for the record, let me ask you and take advantage of the time that we have this morning to share with us any specific market development plans that you have and, more to the point, what you would ask that the Federal Government do to assist in this with regard to particular commodities or particular countries.

Increasingly, as I am involved in these trade matters, it seems to me that we are, like it or not, compelled to do battle with people on a bilateral basis and exert leverage where we have leverage. So, any specific recommendations that you have in that regard would be especially appreciated.

Mr. ISO. Yes. AB 1423 certainly can gain much from experiences of the FAS programs. The FAS cooperator market development program, in which the California program is patterned after, certainly has a long history. Since the program was initiated in 1958; it has undergone an extensive evolution. The regulations that came into being at that time was a product of several hundred pages of guidelines, and directives.

Over the years it has reduced to something in the neighborhood of 150 pages. I would say administrative processings were significantly downgraded and focus placed more on programs and getting the job done in promoting abroad. We will take these factors into consideration for AB 1423. On program approaches, California can benefit from the successes and certainly some of the failures that the FAS program has experienced. We can assist California cooperators in their 1423 programs to narrow down and pinpoint operations to target markets and utilizing the experience of the FAS program in foreign markets.

In the California program we have specific commodity areas which can be dovetailed into the Federal program. Individual private brand name products can be promoted utilizing programs carried out by the Federal.

Mr. **Berryhill**. Senator, may I add one thing to that?

We believe the FAS program is one of the most successful programs in promoting agriculture, especially our specialty crops. I know there is a tremendous pressure to cut back on some of these programs. We would certainly hate to see one of the really proven successful programs take a big cut when we really are emphasizing, or trying to at least, our export markets. Because they have been a great help to us.

Senator **Wilson**. I think your point is well taken. I think you're aware, but perhaps others in the audience are not, that the price of liberty is, indeed, eternal vigilance. Recently we found that there was an effort made to strip away the modest export subsidy that we had provided for promotion, because it was going to be used to fund "a reform," in quotes.

The reform was hardly a reform. It was one of the most flagrant abuses that has been foisted on unsubsidized America farmers. That was the effort that was made in the depth of night that notice to no one, notwithstanding reports to the contrary, out of the farm conference last year to subsidize those who would have received 92 percent of the full deficiency payment for growing a commodity support program on just half of their crop land.

While we were able to avert the total inequity, some still exists. But at least we were able to save some of that money and also avoid what would have been a subsidy on a subsidy and competition to the unsubsidized free market producer by those who were getting subsidy in two ways.

I think your testimony is extremely useful. I am particularly struck by the point which you made with respect to the free trade agreements and your analogy of the horse-and-rabbit theory. I think that it's very easy to announce concepts that are attractive and without adequate analysis find that they often achieve something different.

Mr. **Berryhill**. We kind of went through that with the Israel free trade. It seemed that the decisions had been made prior to when we really had a good opportunity to be heard. But thanks to you we were heard and I think we did make some changes that gave us some protection in certain areas that were were concerned about. I would suspect the same thing when the Canadian and Mexican free trade agreements are beginning to be drawn up. Knowing that you are there makes us feel better. But we want to be informed and support at least our opinions in those negotiations.

Senator **Wilson**. In that connection, I have announced the intention at the appropriate tactical moment to try to amend a legislative vehicle—I haven't announced what it will be—that will provide a greater opportunity for Members of the Senate who are not members of the Finance Committee to participate in the deliberations before the pact is sealed in concrete.

The fast track procedure that has been created in statute does not, in my judgment, provide adequate opportunity for the entire Senate to participate. Our decision is purely an up-or-down decision on an all-or-nothing basis. We are not able to amend the agreement on the floor. There is a limited amount of debate on these bilateral free trade agreements. With that in mind, we have sought to involve other allies in support of changing that process.

Which leads me to a question to both of you. In an effort to bring about this kind of thing, we clearly are dealing with a divided constituency within the Senate itself, which reflects a divided constituency in American agriculture.

At no point has this fact been made more compellingly to me than in the unhappy history of our efforts to enlist support from our brother farmers across the land to attain equity for the wine industry. There were many who were of no help, to put it mildly, as we sought to bring about even the modest reforms that are contained in the Wine Equity Act, to which you and Senator Nielsen have made reference this morning.

What we found, specifically, was that the American Soybean Association, in a near panic for fear of retaliation from European customers, was back and forth over the candle several times and twice took official positions in opposition to different versions of the bill. To say that they were no help considerably understates the actual facts.

Now, I remember conversations at the time with their representatives warning them that the time was not far off when they would find it in their interests to be supportive of our efforts to combat unfair trading practices from the EC. I think that time has proved me right a good deal earlier than I had intended to be vindicated.

The accession of Spain and Portugal now has produced a classic situation in which grain exporters from the Midwest are faced with severe cuts in their ability to export because of unfair trading practices. At the same time those of us who grow the specialty crops in California are imperiled further with regard to our ability to market our produce to those northern European markets that continue to exist for us. Again, because of those same unfair trading practices.

So, with that as a long-winded prelude and leading the witness all I can, I will state the question. Don't you agree that it is in the interests of other segments of American agriculture to make common cause with us? And what experience have you had in dealing directly with Midwestern counterparts and, specifically, with some of the grain exporting trade associations?

Mr. BERRYHILL. Well, unfortunately, I've had similar experiences, Senator, even when I was in the State senate in carrying legislation. That is one of the inherent problems in agriculture. Every commodity is more concerned about their own—instead of standing together as a united front, they all have a tendency to fragment out and only to protect their own interests.

I've long been an advocate that we should all stand together. Some of us may get hurt, but we should all stand together as a united front to fight these unfair barriers and tariffs.

The walnut situation, I think, was a pretty good situation. And I'm a walnut grower. We took a beating. We still stood behind the efforts of what they were trying to accomplish in that whole situation. As a result, we did take a financial beating, hopefully that would be addressed.

But I think there's a good example where we said, hey, wait a minute, let's stick this one out. I think we have to do that and I think we have to get our message out to the rest of agriculture that they pick us off one at a time, so to speak. We have to get our message out, I think, that it's important that we stand together on these issues. Henry Voss, I think, is going to be one of your witnesses. I think the Farm Bureau can be of help with that to bring some of those things about.

Senator WILSON. What you're saying is that hang together or we'll all hang——

Mr. BERRYHILL. Hang separately, that's right.

Senator WILSON. Thank you very much, gentlemen. I'm very grateful for your efforts and for your being here this morning.

Let me state that we have a full platter this morning. We've got excellent witnesses representing a variety of commodities. So, I've been advised on both sides this morning to restrain my impulse to enjoy this hearing as much as I would like and engage in even more extensive questioning. I will try to abide by their admonition.

With that I invite to the table panel I: Henry Voss, president of the California Farm Bureau Federation; Ms. Jean-Mari Peltier, the trade specialist representing California State World Trade Commission; and Lawrence Taber and David Zollinger representing the National Association of Growers and Processors for Fair Trade.

We will hear first from Mr. Voss. Welcome, sir.

Mr. VOSS. Thank you, Senator.

Senator WILSON. Welcome back, I should say.

STATEMENT OF HENRY VOSS, PRESIDENT, CALIFORNIA FARM BUREAU FEDERATION

Mr. VOSS. Thank you, again.

I would like to express our appreciation for the leadership and support that you've shown for California agriculture since you've been in the Senate and particularly the interest and the advocacy you've had in this whole area of trade, which I think California has played a back seat in over many of the negotiations in the last couple of decades. Through your leadership, I think that we find ourselves in the forefront in looking at trade negotiations in the future.

The panel is to speak about the GATT. I have extended a little bit into the segment of the other two panels, in that I think that the view that the world sees as this country enters into agreements with Canada and Mexico and how strong a position we take with Portugal and Spain in the EC will have a lot to do to set the stage and the game to be played in future GATT negotiations.

I'm Henry Voss, president of the California Farm Bureau Federation, representing about 85 percent of the State farmers and ranchers. California's $14 billion farm industry, which includes an enormous variety of crop and livestock commodities, is highly dependent upon international trade. We rely on agricultural exports for roughly one-quarter of our revenues and we are susceptible to unfair competition from imports entering at less than fair market value.

I appreciate the opportunity to outline the federation's views on international trade. As a general farm organization, Farm Bureau looks for gains in the upcoming round of multilateral trade negotiations that will benefit agriculture as a whole. Rather than focusing on individual tariff concessions and commodity-specific trade barriers, I will stress the need to improve trading rules under GATT.

We must put some teeth into the GATT mechanism to gain sincerity and respect for its rules. The GATT dispute settlement procedure has been proved totally ineffective, as it is virtually impossible for GATT to penalize a nation for rule violation.

Also, the dispute settlement procedure must be accelerated significantly. We need deadlines to expedite procedures. The settlement process could be speeded up by establishing a pool of experts to avoid delays in panel selection. To make the process more fair, either the panel's findings should be binding or the disputants should be excluded from the panel report procedures.

Once the GATT has accepted the verdict of one of its panels, there must be some enforceable time limit for the losing party to take action. Failure to comply would invite legitimate retaliatory action to counter the unfair practice.

At a recent seminar in Los Angeles, Deputy U.S. Trade Representative Michael Smith stated that there is no single issue more important to the administration than strengthening the rules in agriculture. It is essential to have strong representation for California agriculture in these negotiations.

Farm Bureau generally opposes bilateral free trade agreements as they contradict the GATT's most-favored-nation principle and the United States often gives away much more than it receives. We opposed the United States-Israel free trade area for those reasons. When a country the size of the United States, some 200-plus million people, opens its borders in the name of free trade, it does not gain a comparable market advantage overseas.

Our enormous market size greatly exceeds that of Israel, Canada, Mexico, Taiwan, Korea, and most of our trading partners. Mutually beneficial trade among nations depends on an even chance for all countries to produce and trade the goods in which they have a comparative advantage. We basically believe that everyone should play the trading game by the same rules.

However, due to our unique relationship with Canada, Farm Bureau's 1986 policy cautiously supports preliminary negotiations on a United States-Canada free trade agreement. We would oppose any arrangements that benefit Canadian agriculture more than United States agriculture. Frankly, American farmers fear an agreement that eliminates tariffs without halting the Canadian subsidies. Swine, pork, and lumber subsidies in particular concern California producers.

In Canada, the provincial governments own 90 percent of the timberland, the government-administered appraisal price is often the sales price. Low stumpage costs create an effective subsidy for this export-oriented industry. Until the subsidy issue is resolved, our timber interests are not likely to endorse any relaxation of U.S. trade restrictions.

United States hog producers received a favorable ruling from the ITC on subsidized live hog imports from Canada in 1985, but were denied similar action against processed pork imports.

Grower standing was the key to the ITC's controversial position. The ITC did not feel that there was sufficient legal integration between hog producers and pork packers. The decision will encourage a shift in processing patterns, but will offer no relief to domestic producers. The hogs that now would be subject to countervailing duties upon entry to the United States will simply be slaughtered in Canada and shipped south without restriction.

Canada's domestic and export subsidies on agricultural products and natural resources must be addressed if bilateral talks are to proceed successfully. Farm Bureau will not support an agreement that deals with tariffs but allows Canada's subsidies to remain in place. We need assurance that free trade means fair trade. Agriculture has learned the hard way that this is not always the case.

If the administration pursues more bilateral free trade agreements, Mexico is likely to be the next target. With liberal access to the United States market, Mexico currently enjoys most-favored-nation tariff treatment, benefit of the injury test under countervailing duty law, and duty-free access under the Generalized System of Preferences. About $62 million in Mexican agricultural products entered the United States under the GSP in 1984 exempt from existing duties.

In contrast to this liberal United States policy, Mexico's trade policy features stiff licensing requirements and high import duties. A United States-Mexican free trade agreement would have to reach beyond tariff measures to trade issues such as import licensing restrictions, foreign exchange limits, and export subsidies. Some of the past subsidy complaints have involved eggs, honey, and asparagus. California flower growers today now find themselves the victim of cheap Mexican imports.

In addition to the inequitable trade policies, California farmers face production disadvantages stemming from Mexico's looser pesticide and labor laws. Mexico's lack of chemical restrictions and worker protections makes farming less expensive south of the border.

In the event of a truly free trade arrangement, Mexico would have the edge of lax controls and farming practices and, again, free trade would not necessarily mean fair trade.

Mexico intends to join the GATT before the next round of multilateral trade negotiations. That country has a long way to go in liberalizing its policies to meet GATT's rules. Until Mexico demonstrates a sincere approach to liberalize market access and eliminating export subsidies, the United States should not consider further concessions to the trade policy.

The developments in Europe pose still another trade problem for California agriculture. Spain and Portugal are now members of the EEC and their new membership will bring shifts in production and trade flows. The GATT allows countries such as the United States to seek compensation for trade losses when a custom union expands, but we have never been very successful in either avoiding those losses or obtaining compensation.

Spain and Portugal's accession to the EEC could pose two basic problems for California agriculture: EEC farm supports to the new members could mean increased production and subsidized competition, and its community trade preference will establish discriminatory tariffs.

Producers of horticultural products competing with Spain and Portugal such as olives, almonds, citrus, and grapes fear market declines and increasing competition as those countries begin to benefit from the common agricultural policy.

Farm Bureau will support the strongest possible U.S. efforts to protect our remaining agricultural export rights in the EEC. The United States should be prepared to withdraw concessions from the European Community when it implements objectionable trade restrictions. We view this as an extremely important short- and long-term problem, demanding careful attention and consideration.

Senator Wilson, we at Farm Bureau strongly believe in fair trade. We know we will never have truly fair trade, but all we ask is an even chance. And with a fair chance, we believe our chances of competing in the world market are good. Thank you.

Senator **WILSON**. Thank you very much, Mr. Voss.

[The following letter from Mr. Voss was subsequently received by the committee:]

CALIFORNIA FARM BUREAU FEDERATION,
Sacramento, CA, April 30, 1986.

Hon. PETE WILSON,
U.S. Senate, Washington, DC.

DEAR PETE: Thank you for the letter of April 22 regarding the agricultural trade field hearing. I would like to expand on one point regarding the upcoming round of multilateral negotiations. My testimony addressed issues to be covered in the talks, but not specifically how to communicate California's positions to negotiators and decision-makers in Washington, D.C.

The California agricultural community's interests can be classified into two groups: broad-based ("macro") issues such as policy and procedures, and commodity-specific issues, such as tariffs and quotas. The California Farm Bureau Federation, as a general organization, can address the "macro" issues, such as the GATT framework, rules of trade, dispute settlement mechanisms, and the subsidies code. For the most part, the farm sector is united on these issues, and organizations like Farm Bureau can seek improvements that will benefit all agricultural producers. We will work with other general organizations, such as the Agricultural Council of California, the California Chamber of Commerce, and the California State World Trade Commission to coordiante our dialogue with Congress and the Administration.

Individual commodity groups will also convey commodity-specific interests through their existing structures and through coalitions they form throughout the state and nation. Some nationwide coalitions have already formed and are posturing for the upcoming negotiations. Other agricultural interests are just beginning to assess the opportunities and threats the new round presents.

Through the California Agricultural Trade Seminars, roundtable policy discussions and commodity group meetings, the California agricultural community has begun preparing for the talks. An important role for Farm Bureau is providing information on the negotiating process and the preparatory procedures. We appreciate any assistance you can provide in helping the information flow between our growers and Washington, D.C. Continued participation by Congress and the Administration will be important in maintaining this vital dialogue.

Your interest and activity in agricultural trade are important to California agriculture. We look forward to continued cooperation as the new round develops.

Sincerely,

HENRY J. VOSS, *President.*

Senator **WILSON**. Ms. Peltier.

STATEMENT OF JEAN-MARI PELTIER, TRADE SPECIALIST, CALIFORNIA STATE WORLD TRADE COMMISSION

Ms. **PELTIER**. Good morning. My name is Jean-Mari Peltier and I am the general manager of the California Pear Growers Association. In addition, I'm working on a special project for the California State World Trade Commission involving multilateral trade negotiations. It's on behalf of the California World Trade Commission that I'll be speaking this morning.

As one of the cosponsors of our afternoon program, where we need to have the Senator as a speaker, I'm mindful of the lateness of our time. I won't be speaking directly from my prepared remarks, but rather will be giving you a summary of the position of the World Trade Commission with regard to the multilateral trade community.[1]

I might say that we're looking at the MTN basically in two forms: One, what we need to be doing to address specific commodity conerns, concessions that we want to gain during these multilateral trade negotiations; and then on the other side we're looking at the codes. We're looking at the general framework of the GATT and what kinds of changes we want to see in those guidelines of the GATT.

I won't be talking about specific commodity concessions today, but would like to point out that the commission is in the process now of working with the agricultural trade community to try to document what kinds of barriers we're facing overseas. We're preparing a catalog right now of trade barriers imposed by nations in the Pacific rim. We hope to make this available both to the Senate, certainly, to the U.S. Trade Representative and also to the USDA as we move closer into starting the GATT negotiations.

I might point out about a year ago we held what we've now had the audacity to dub the Murphy's Retreat. A year ago that Murphy's Retreat, this Murphy's Summit, if you will, reviewed the trade title to the 1985 farm bill. The results of that leadership summit of California agricultural interests served as the basis for my testimony before this committee last year.

I was very pleased, Senator, that you incorporated many of the findings of that Murphy's Retreat into the 1985 farm bill. We want to thank you for that.

I'm hoping to continue along that path. Today my testimony will focus on a similar retreat that we held this year, which we're dubbing Murphy's II, and had the sole purpose really to discuss what kinds of concessions we wanted to seek in the areas of the codes of the GATT. Based on that I'll be making my presentation this morning.

The four areas that we reviewed in Murphy's included dispute settlement procedures, the standards issues, technical barriers to trade, the negotiation process itself and the issue of subsidies. Because I believe a number of our speakers today will be focusing on the issue of subsidies, I will only be presenting that in terms of my written testimony.

In dispute resolution, Mr. Voss and Mr. Berryhill both spoke about the problems that we've had with the existing procedures for dispute settlements. The ITC recently did a review and found that the existing procedures are successful for every place except the most contentious trade battle, including those in agriculture. I'm sorry to hear that we're seen as contentious, but I'm sorrier still to see that our existing dispute settlement mechanisms have been virtually totally ineffectual in the agricultural arena.

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[1] See p. 65 for the prepared statement of Ms Peltier

The problems we've had include the length of time that it takes to resolve a case, the procedural maneuvers that disputes can go through in order to subvert the intent of the process and lack of compliance ultimately with the findings of the GATT. Certainly, what we saw this summer with the citrus case and the retaliation and the counterretaliation is all too glaringly an example of how that process has failed to work.

Two of those three problems were identified by the ITC as problems in existing dispute settlement mechanisms. We in Murphy's would add two additional problems; two that you, Senator, are very familiar with. Those include grower standing before cases with the ITC and the data and documentation requirements imposed on the agricultural sector in cases before the ITC.

In terms of solutions, we came up with several possible areas for addressing the problems in existing dispute settlement mechanisms. We believe that we should explore the possibility of utilizing U.S.-established time lines and applying that to the international dispute resolution process.

We believe that, as Henry Voss mentioned, that we should consider the possibility of establishing ongoing panels or pools of expert witnesses. One item that I understand the U.S. Trade Representative's Office now is exploring is the possibility of using nongovernmental witnesses in 301 cases. We believe that would potentially be a step in the right direction.

We think that we need to appoint alternates to that panel at the time of impanelment rather than waiting until one of the panel members becomes sick or has to leave for personal reasons, as we had happen in the raisin and canned fruit case.

In terms of addressing the problem with lack of compliance, we're now exploring the possibility of establishing some kind of a system of binding arbitration for certain cases of GATT disputes. Within those we would not be compelling the disputants to abide by the findings of a panel; but people going into the case would know that if they decided to go against the panel's findings, that the other party to the dispute would be free to go ahead and retaliate.

In terms of procedural maneuvers, we've talked about the problems with the citrus case. We would like to make sure, from California's perspective, that if we get into a situation of retaliation, we aren't able to come to some kind of a negotiated settlement, that the aggrieved party is the one who's benefited by any action taken by our Government.

Grower's standing I mentioned before is a situation that you're very familiar with, Senator. We'd like to go on record saying that it's the position of the World Trade Commission that the issue of grower standing should be resolved as presented in various pieces of legislation that you've had. We believe it fully comports with the intent of GATT procedures and we believe that it will provide greater certainty for those of us here in California agriculture who are growers producing crops for processing.

Data and documentation requirements. We'd like to offer our thanks to the Senator for recent communications he's had in calling for a review of the data and documentation requirements of the ITC. They've been cumbersome, they've been virtually impossible for our agricultural community to develop and we're hopeful to be able to document that through that report that you've requested.

The issues of the standards code. Something that has been one of the most thorny issues for California agricultural, particularly those of us involved with producing a horticultural commodity. Among the problems that we face there include the overall approach of given countries to establishing quarantines. As an example, Korea now has a quarantine against California citrus products because of the medfly. One medfly was found in Los Angeles about 3 years ago and on the basis of that we are still facing a quarantine on those products.

So, we need to get greater certainty in the international arena to assure that our other trading partners are approaching the question of past risks from the same level that we are.

Along these lines, we'd like to see greater acceptance of the concept of Probit 9 in terms of plant and animal security; that if we treat for a pest remains in 35,000 pieces of treated fruit, that that doesn't represent a risk of infestation in the importing country.

We'd also like to see greater acceptance of the U.S. posture in the area of continental quarantine. There are some areas in which California agriculture has been precluded shipment of items into Japan—fresh potatoes would be an example—for pests that we've never had in the State of California.

The final problem area that we've had—and it's probably not the final, but the final I'll talk about today—is the area of cosmopolitan pests; where we have aphids, Japan has aphids, every country in the world probably has aphids and yet importing countries sometimes use questions of existing pests to block our products.

Solutions to this area. We understand that there are going to be high-level talks ongoing between the Government of the United States and specifically the Government of Japan in this area of plant quarantines. Anything that this committee can do to make sure that those talks—led by Orville Bentley of the USDA and assisted by Sanford Miller of the Food and Drug Administration and representatives of EPA. Anything this committee can do to make sure those talks go on, we'd greatly appreciate.

We'd like to see the USDA push for a coordinated approach to dealing with problems of plant quarantine issues that would incorporate not only the scientific side of such questions, but would recognize their marketing implications and also the policy implications. We' like to see greater cooperation and coordination between the activities of the Agricultural Research Service, the Animal and Plant Health Inspection Service and the Foreign Agricultural Service.

We're working now to start to document the nature and extent of these issues in plant quarantine areas and we'd like to call on the USDA to also prepare a list of such problems in preparation for the multilateral trade talks.

Finally, we need to explore fully those means available to address issue of plant quarantines. We need to review what kind of role the Technical Standards Committee of the General Agreement on Tariffs and Trade can play. We need to examine the role of the FAO in Rome to see how California agriculture and how U.S. agriculture can get greater certainty in the area of plant quarantines.

One area that the World Trade Commission supported last year and we were not successful in getting into the 1985 farm bill were provisions for greater export oriented research. Now, I know that there has been a blue-ribbon panel of the USDA that came forth last fall with a paper saying that we really need to step up our import-related quarantine research. While we recognize that we need to protect our borders from foreign pest infestation, of course, we in California agriculture want to see that there is plenty of work done in the area of export-related research.

So, if we can renew our efforts this year to try to get additional funding and resources dedicated to that, we'd appreciate it.

Finally, the negotiation process itself. As I mentioned, we're working now to try to document the problem areas that we have in the Pacific rim. We would like to make sure—and if you can accomplish this through the legislation granting the President the authority to enter into multilateral negotiations, that may be the best approach. But we would like to assure that the talks on Spain and Portugal aren't folded in to the general talks under the multilateral trade negotiations.

It's my understanding that when the United Kingdom became a part of the European Community several years ago, the concessions due the United States were folded into the discussions of the MTN and, as a result, we never saw anything that we got. So, we'd like to keep that out.

We need to talk now about developing the kinds of strategies to make sure that, as Clare Berryhill pointed out, agriculture becomes the major priority in the multilateral trade talks. With all of the talk going on about including trade and services under the GATT, we need to make sure that agricultural concessions aren't traded away in order to get the kinds of concessions that we want in the issue of services.

We have to be prepared not only to offer additional concessions to the U.S. market in exchange for specific commodity concessions we're seeking, we've also got to be ready with the intestinal fortitude to start talking about withdrawing some previously granted concessions if we're unsuccessful in our previous approach.

One item that I can't believe we haven't been doing in the past, but apparently we've not been doing an adequate job of it, and that is during the negotiation process itself we need to make sure that we're documenting corresponding concessions--we're giving you concessions in wine in exchange for you giving us concessions in soybeans, as an example—so that we can fully review whether or not countries are implementing the concessions they've agreed upon. If they're not, we should be able to unilaterally withdraw the corresponding concessions.

That is basically the gist of my testimony, Senator. I think that the multilateral trade negotiations provide us with the unique opportunity to address some of the ongoing problems of California agriculture in the international arena. But with that opportunity also comes the responsibility both for those of us here in California agriculture and for the U.S. Senate, to try to make sure that we don't lose more ground than we gain. Thank you.

Senator WILSON. Thank you very much, Ms. Peltier. Excellent statement.

Gentlemen, Mr. Zollinger and Mr. Taber, you both have written statements. We are grateful to you for that and they will be entered in their entirety into the record. Let me invite you to summarize your statement.

STATEMENT OF DAVID ZOLLINGER, PRESIDENT, NATIONAL ASSOCIATION OF GROWERS AND PROCESSORS FOR FAIR TRADE

Mr. ZOLLINGER. Very well, Senator. I believe our statements will be quite concise as we go through them.[1]

Mr. Chairman, committee members, ladies and gentlemen, my name is Dave Zollinger and in addition to being the executive vice president/chief negotiator of the California Tomato Growers Association, I represent here today as its president, the National Association of Growers and Processors for Fair Trade.

You may remember our United States tomato industry-wide association from its intensive involvement in the United States-Israeli free trade area proposal. It was the processing tomato industry that proved itself so highly import-sensitive before the United States International Trade Commission during the national debate regarding the United States-Israeli fair trade area.

We, Mr. Taber and I, appear here today before this hearing of the U.S. Senate Agriculture Committee, to inform you that the National Association of Growers and Processors for Fair Trade is very much an active and viable factor in matters of international trade which may have an impact on our industry. This most unusual alliance of growers and processors involved in the U.S. processing tomato industry is now stronger than every before.

Let me take a moment to discuss exhibit A in my statement.[2]

The title of this exhibit is "United States Tariff Rates on Canned Tomatoes and Tomato Products and Effective Dates." The exhibit presents a basis for our industry's greatest concern regarding the MTN under GATT. That is, that in all negotiations since the Tariff Act of 1930, when tariffs were first established for tomatoes, until the last round of negotiations under GATT, our tariffs have been cut from a level of 50 percent to 13.6 to 14.7 percent, depending upon the product.

The U.S. processing tomato industry is without an export market and, therefore, depends upon its domestic market for its entire sustenance.

The industry cannot under any circumstances accept further tariff reductions as an outcome of GATT negotiations. Putting it another way, U.S. negotiators must not trade off the proven, highly import-sensitive processing tomato industry in order to grain something else for some other industry sector or for military advantage.

In respect to the proposed free trade area agreement with Canada, the association supports the proposal as it is currently presented. We believe its potential impact will tend to allow a greater degree of United States tomato industry penetration into Canadian markets. However, the industry has concerns, as it still does with respect to the United States-Israeli free trade area, as to the possibility of subsidized product from the EC or elsewhere being passed through the free trade area as Canadian grown and processed products.

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[1] See p. 69 for the prepared statement of Mr. Zollinger.

[2] See p. 71.

Portugal and Spain have both been highly active importers of tomato products during 1985 at market-busting prices. In the period of July through September 1985, imports of all canned tomatoes into the U.S. markets were up 29.4 percent. Tomato paste for the same period remained unchanged.

In canned tomatoes, producers in Spain, which accounted for nearly 30 percent of all imports, increased shipments by 6.9 percent at prices that were 28 percent lower than in 1984. In tomato paste, Portugal accounted for 40 percent of the imports during the period at prices that were down 27 percent from the same period of the previous year.

Even though these heavy shipments at bankrupting prices may be of great importance to our industry and do in fact bring to focus the world class stature of the Portuguese and Spanish tomato industries, that is not the issue. The European Community policy regarding payment of subsidies is the issue.

Our association is not fully informed yet as to the staging and quota requirements that will be imposed upon the two nations by the EC during the transition period, but the preliminary trade announcements concerning their accession lead one to believe that they will be greatly advantaged by their membership in the community.

Our concerns lie with the dislocations that will occur in the EC tomato market as Portugal and Spain gain market penetration and other non-EC signatory nations are forced out. These ousted trading nations will look at our overburdened domestic market as the outlet of last resort. We believe the result could be terminal for many of our processors' and growers' operations.

Again, the EC subsidy is the issue. The EC is now totally self-sufficient in processed tomatoes. The original purpose for establishment of the subsidies is now invalid. Yet, the obscenely high EC subsidies continue unabated. Why? For what purposes

The National Association of Growers and Processors for Fair Trade is appreciative of the opportunity to appear here today. Also, it is our wish to submit additional written testimony at a later date. Thank you.

[The following letter with enclosure was subsequently received by the committee:]

NATIONAL ASSOCIATION OF GROWERS AND PROCESSORS FOR FAIR TRADE,
Stockton, CA, April 11, 1986.

Re: Your field hearing of the Senate Agricultural Committee on International Trade of April 2, 1986, in Sacramento, California

Hon. PETE WILSON,
U.S. Senate, Washington, DC.

DEAR SENATOR WILSON: Please accept the enclosed article from the Foodnews, Great Britain, as an addition to my Statement presented during the hearing on behalf of the National Association of Growers and Processors for Fair Trade.

I believe this recent article, March 21, 1986, supports most graphically our Association's contentions regarding the consequences of the irresponsible subsidy payment policies of the European Community.

Again, we thank you for the opportunity to appear before your Committee and your aggressive stance regarding the international trade problems of California agriculture.

Sincerely,

DAVID L. ZOLLINGER, *Chairman.*

[Reprint from Foodnews]

MOVES TO MOVE 'MOUNTAIN' OF TOMATO PRODUCTS

(By Roy Ellard)

There is growing concern over the EEC surplus stockpile of canned peeled tomatoes and tomato concentrate following what now seems was a huge overproduction last season. Processors are threatening to cut 1986 output and the Italian government may agree to some give-away proposals.

The Italian government is understood to be trying to negotiate a package for disposing of 12.0 million cartons of peeled tomatoes free of charge in export markets where there is virtually no consumption. The cost is estimated at around LIT225 billion. Quite apart from the uproar this will cause in the USA and in non-EEC producing countries, the political aspect of such a deal in Brussels is daunting.

The alternative is to put growers out of business—something that would be intolerable to the politicians in Rome. The alleged—if not proven—frauds on tomatoes in the South of Italy also present a major problem and with two other major producers—Portugal and Spain—now EEC member States, the outlook is utterly depressing.

Staying with peeled tomatoes for the time being, the news that the Italian government will take some action to remove surplus stocks is the main talking point in the Naples area. The anticipated price is LIT11 000 per carton of 48/500g "bright stock" and LIT200 per degree of brix in the case of tomato concentrate. This is above recent market prices, but below what the industry claims is the true 1985 packing cost (about LIT6 000 for 24/500g cartons of bright cans and LIT6 500 labelled.

In the traditional tomato concentrate packing regions of Northern Italy, the industry has been quick to claim that an unsold stock of 20 000 tonnes of first quality tomato paste should be included in any government support purchasing. Most of the concentrate would be over 50 mould count, say local experts. The Northern canners have been prevented from selling these unsold stocks by previous sales contracts made with a guarantee against price decline clause.

The delegate general of the Association Mediterraneenne Internationale de la Tomate de Conservet (AMITOM)—Jacques Miklichansky—has mailed us a detailed study of his organisation's ideas on the tomato surplus. They have discussed the "desirable" level of production in 1986 and have suggested to the Commission in Brussels that the ruling allowing quotas to be exceeded by 20% (i.e production without subsidy) should be temporarily suspended.

Furthermore, AMITOM wants to see aids maintained at a level "which would discourage the processing of surplus tomatoes" and has also stressed that the regulation comes into force quickly, "before planting takes place."

There is not the same urgency over prices, says Miklichansky, as they will, in any case, will be close to last season's levels "in our opinion."

Another valid point made by AMITOM is that if prices and aids are fixed in Brussels in ECUs, why should not actual trading be conducted in the Euro-currency? "Given uncertainties over exchange rates—which are not governed by economic factors—the use of the ECU would restore some form of stability."

Further points made by Miklichansky are that while it is true that the market situation is unsatisfactory for the processors it is also just as bad for distributors and users, who have experienced major price fluctuations which have resulted in the "total disruption" of the manufacturing and marketing chain.

Whatever the outcome of all these various proposals may be, it is clear that the EEC surplus tomato processing problem will not be solved this year. Production controls must be tightened and marketing methods improved.

GREEK EXPORTS OF TOMATO PASTE

[In metric tons]

	1983	1984	1985
United Kingdom	31,141	36,322	33,083
France	10,044	15,854	10,777
Netherlands	12,557	10,960	9,279
West Germany	10,441	11,264	8,166
Denmark	1,657	1,370	1,927
Italy	4,577	5,558	719
Belgium Luxembourg	4,378	7,882	1,220
Republic of Ireland	1,120	742	516
Total EEC	75,915	84,952	65,687
Libya	25,313	7,250	25,960
Egypt	15,685	8,756	10,154
Algeria	7,047	26,534	9,548
Saudi Arabia	12,816	7,078	2,587
Iraq	1,469	9,444	2,426
United Arab Emirates	2,360	2,369	2,352
Sudan	4,726	1,723	2,027
Switzerland	2,326	957	1,931
Kuwait	2,330	3,043	694
Turkey	2,736	24,793	
Bulgaria	6,994	1,444	
Other countries	14,647	9,812	16,076
Total non-EEC	98,449	103,203	73,755
Total world	174,362	188,155	139,442

Senator WILSON. Mr. Taber.

STATEMENT OF LAWRENCE K. TABER, VICE CHAIRMAN, NATIONAL ASSOCIATION OF GROWERS AND PROCESSORS FOR FAIR TRADE

Mr. TABER. Good morning, Senator. I will be brief. Mr. Zollinger allocated me 29 seconds out of the five minutes, so I have to be brief.[1]

I'm appearing here today as vice chairman of the National Association of Growers and Processors for Fair Trade, which we use the acronym NAG. I believe you'll agree that is an appropriate appellation.

The close working relationship that we have maintained with the growers in this coalition illustrates the seriousness with which we view the continued erosion of the U.S. market share of processed tomato products to imported tomato products.

I'd like to take this opportunity, Senator, to again thank you on behalf of the NAG outfit for your leadership that you demonstrated so well in providing us an acceptable solution to the problems presented to our industry last year during the Israeli free trade area negotiations.

For the record, we'd like to remind the committee of the important role of the California tomato processing industry that will take place in the total agricultural picture here in California. Hundreds of growers provide 24 processing companies, who employ in the neighborhood of 50,000 people each year, who together process about 6 million tons of tomatoes, which is about half of the world supply and about 85 percent of the Nation's production of these products.

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[1] See p. 72 for the prepared statement of Mr. Taber.

Although we believe we have the best and most efficient growers and processors in the world, we still feel threatened by the multitude of subsidies and cheap labor rates which are the hallmarks of our foreign competition.

The point we would like to emphasize is the enormous production capability for processed tomato products which exist and is growing outside the borders of the United States from such diverse areas as Turkey and Taiwan. Last year, for example, no less than 28 countries shipped processed tomato products into the United States, much at low or market-breaking levels. The total of just three of these imports—that is, canned tomatoes, tomato paste, and tomato sauce—amounted to 365 million pounds. This is a tremendous production capacity and underscores the need for the U.S. Trade Representatives to hold the line on current tomato tariffs in the upcoming negotiations.

In conclusion, we wish to compliment you, Senator, for requesting the General Accounting Office to conduct a study of the data and documentation required by the Government for challenging unfair agricultural trading practices by other countries.

This is a fundamental issue with our industry and we're pleased that you have focused attention on it. For example, during a recent ITC investigation of a complaint lodged by the processing industry, one company who was asked to provide data to the ITC spent 282 manhours, or about 35 days, just to complete one part of the questionnaire.

The NAG member processors indicate that many of the questions asked by the ITC during the course of determining if material injuries exist were practically impossible to answer and were particularly beyond the capability of many small- and medium-sized companies to make an adequate response.

Again, Senator, thank you very much for your interest in our industry.

Senator WILSON. Thank you, Mr. Taber, Mr. Zollinger.

First, in the interest of time—although I think your statements have been very directly on point, very clear and emphatic—we would like to submit some further questions to you for the record. Let me make a couple of points in response to this very excellent testimony.

First, I agree that the subject of subsidies is one that must be treated. Current definition in the subsidies code allows our trading partners to, frankly, get away with murder. It it's not amended, if their conduct does not change, I think it is going to cause a trade war.

Second, the horror story that you just related is one of the most recent that I have heard that makes clear the need for reform in the documentation requirements being insisted on by the ITC. I'm pleased that you're aware that we have asked the GAO to make a study. We're giving them sufficient time to do it, because we think that it's necessary. We intend to see that there are changes, because it makes no sense to place such unreasonable burdens upon, particularly, the medium- and small-sized firms.

The necessity for the dispute resolution is obvious. Mr. Zollinger makes that point emphatically. What we have now is a situation akin to the Soviet Union being able to exercise a veto in the Security Council of the United Nations. The offender is part of the problem. Presumably part of the solution, but very much the problem in preventing a solution. That has to be changed.

The other point that both Mr. Voss and Ms. Peltier hit upon is one that is not new to any of us. It is the absurb differentiation between grower and processor that we have fought before. Finally we received some relief, reluctantly and not at the cooperation of the International Trade Commission, in terms of affording adequate status to the growers of grapes. Apparently we need to explain to the Commission that just as wine is made from grapes, so processed pork products are made from hogs, and people who are involved need representation.

The problem we have this morning is one of inadequate time. I have several questions that I would like to ask. Let me instead ask of Ms. Peltier, have you, as a result of Murphys II compiled any sort of a written digest of the recommendations and the findings?

Ms. **Peltier**. Actually, Senator, it's incorporated into my written comments. So, you have, in essence, Murphys II before you.

Senator **Wilson**. I think your written testimony is excellent. I just wonder if there was anything that you had not directly addressed in that.

We will submit to you some questions for the record. To the extent that you have already responded to them in your written statements, obviously there's no need to expand upon that. But I think there may be some things that we simply don't have time to get into this morning. So, we will appreciate a little more of your time and effort.

Your panel has been extremely valuable. Last year Murphys I produced some changes in the law. I think we can look to the very valuable information you've given us this morning to make further changes. Thank you very much.

We will take a brief recess. I have been urged by my staff members, Mr. Boyle and Mr. Mallory, to make it 5 minutes. That is wholly unrealistic. We'll make it 10.

During the 10, I would appreciate any witnesses who have prepared written testimony but not yet submitted it, to come forward and submit their testimony.

Let me also announce that even with this break, we are compelled to adjourn this hearing by noon. We will be in recess and resume at quarter of the hour.

[Thereupon a brief recess was taken.]

Senator **Wilson**. Ladies and gentleman, will you take your seats, please. We are behind schedule and need to resume as quickly as possible, otherwise we are going to be unable to do justice to some of the witnesses.

Let me invite to the witness table Panel II: Robert Hartzell, president of the California Association of Wine Grape Growers and executive director of the American Grape Growers Alliance for Fair Trade; Mark Affleck, vice president of industry affairs for the

California Avocado Commission; William Dennison, executive vice president of the Western Timber Association; and Roy Sharp of Livestock Systems Management.

Mr. Hartzell, you may begin.

STATEMENT OF ROBERT HARTZELL PRESIDENT, CALIFORNIA ASSOCIATION OF WINE GRAPE GROWERS

Mr. HARTZELL. Thank you, Senator, it's a pleasure to be with you and I appreciate your holding these field hearings.[1]

I'm representing the members of the California Association of Wine Grape Growers, who produce about 65 percent of the nonwinery-owned grapes crushed for wine in California. I've also been asked by the board of directors of the American Grape Growers Alliance for Fair Trade to speak on their behalf. The alliance represents grape growers and grape products processors in the States of California, New York, and Washington. I might add that as of yesterday, I'm now executive director of the alliance.

I'd like to address several issues, but I'm going to follow your suggestion and just comment briefly, because I know you're under extreme time pressure. I do want to focus a little on Canada, because that's the area you wanted me to address specifically.

Frankly, I don't find much support among the California tree fruit, vine, nut, and vegetable crops for a free trade agreement with Canada. From a wine and grape standpoint, an agreement should at the minimum require that Canada stop subsidizing their wine grape growers in Ontario and British Columbia. I go back to Henry Voss' testimony. He emphasized that very strongly on a number of commodities. That's very true for wine grapes. They apply a discriminatory tax on imported wine in order to finance subsidies to their wine grape growers in those two provinces.

In addition, sole control of wine in Canada is vested in the Provincial Liquor Control Board. There's one for each province. The Central Canadian government can't even touch the system. It would be in the best interests of California wine grape growers if the absolute provincial control on wine were eliminated or reduced and definitely that the differential markup on imported wine be eliminated so that all wines, regardless of origin, can compete equally.

When you hosted the trilateral dinner in San Diego in January, I had an opportunity to talk to Minister Kelleher. I expressed to him the frustration that we felt as a wine industry—I know that it's felt within the United States Trade Representative's Office—as we try to deal with Canada through the Wine Equity Act. Here it's a government-to-government consultation process.

At that point in time we had not gotten anyplace with Canada mainly because the Central Government of Canada has absolutely no control over the wine at the provincial level. I expressed to him the feelings that were coming out of the U.S. Trade Representative's Office that a 301 action initiated by STR may be necessary in order to deal with that issue. He told me that he was just as frustrated with the situation up there as I was, but he said that's the way the laws are.

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[1] See p. 73 for the prepared statement of Mr. Hartzell

Now, since then he and I have had communication—communication that, obviously, he hadn't written, but did sign would indicate a very firm position of the Candian Government that we agreed in the Tokyo round to not change our discriminatory taxes and, therefore, are in compliance with the GATT agreements.

It's going to be tough negotiation up there. I think the significance to the California wine industry is that Canada is our largest wine export market—between 2½ and 3 million gallons—yet we're only 11 percent of all the listings in Canada. Listings are what the provincial stores use to dictate if you can put your wine on to their shelves. Here they are our biggest export market, our next door neighbor and we're only 11 percent of all the wine listed by all the provincial liquor-controlled stores. That's wrong.

So, if we're going to get into trade agreements with Canada, a lot has to change up there as far as wine's concerned.

I happen to feel that the Seagram Co. may be part of the answer. They're big, they're Canadian and they bring a lot of distilled spirits in from Canada. There may be a trading opportunity there.

As far as Mexico is concerned, we're essentially shut out of Mexico at this time from a wine standpoint. The market there is the tourist trade. Because of Mexico's foreign exchange problems, they are not letting any wine into the country.

Through the Wine Equity Act we had reached an agreement that they would start bringing in some wine and that we were encouraged to try to obtain licenses. But then the earthquake occurred and their problems worsened, our Government felt it best not to push further. But we are essentially doing no business at all with Mexico at this time. I don't hear any strong feelings about reaching a trade agreement. A bilateral trade agreement, with Mexico.

Now a few comments on other issues, the problems with the GATT that others have spoken of extensively. I find in serving on the Agricultural Policy Advisory Committee to Dick Lyng and Ambassador Yeutter enormous frustration with the GATT dispute settlement mechanism and I personally feel that's part of the reason that we've got such a protectionist mood in Washington. I know the agricultural people that I sit on those committees with would feel a lot better if the dispute settlement mechanism would work. The fact that it doesn't work raises our anxiety level. Then we lash out and we become protectionist. That's not in our best interest. But when the system doesn't work, that's the result.

I also would like to endorse the changes that the U.S. Trade Representative is suggesting—Jean-Mari Peltier mentioned them—mandating a mediating role for the General Director of the GATT, development of an alternative process of binding arbitration, building into the dispute settlement process binding timetables, the use of nongovernment experts as panelists, and the reaffirmation by participating parties to abide by the panel decisions.

This follows very closely to what was decided up at Murphys II. Since the U.S. Trade Representative is looking to these changes, I would certainly endorse them.

In addition, I feel that the retaliation and counter-retaliation actions involving citrus are a very painful lesson to all of us. I think some changes need to be made in the process to assure that relief to the injured party is obtained. In citrus that isn't happening. Now we have walnuts being hurt; some changes need to be made there.

As far as the ITC procedure, others have spoken about the need to adapt it so it's more useful to agriculture. I think the statistics that Seely Lodwick pulled together that showed that 20 percent of the agricultural trade cases have been successful, while some 60 percent of industry cases; I think that's a bad track record.

I would like to commend you and Jesse Helms for carrying forward the request to the Comptroller General to make recommendations for changes. I would like to add two areas to the letter that you wrote.

One involves the need for changes relative to producers of a like product, the change probably is needed in the GATT rules. The like product issue came up with our wine case where the growers were producers of grapes and not wine; therefore, we had no standing. The standing issue and the like product issue are really related. They tie together.

The thing that I feel is so wrong with that is that frequently the grower of the processed product is the first to be injured. The processor will pass back his losses back to the grower if he can. So, the injury frequently will occur at the grower level before it does at the processer level; yet the grower not growing a like product can essentially die and the process doesn't respond to it.

The other issue that I think needs to be added to your recommendations to the Comptroller—request to the Comptroller General—is regarding what is a subsidy. Others have spoken to that. But in our dealings with the European Community, they keep insisting that they don't give export subsidies. That's true. They don't give export subsidies to wine coming into the United States. They do subsidize in all sorts of other ways. That definition of subsidy really needs to be cleared up.

In the case of Spain and Portugal becoming a part of the EEC, my suggestion is very straightforward. If compensation or retaliation is in order and the EEC fails to compensate fairly, then I would suggest retaliation with wine. I feel such a move would be welcomed by California growers and vintners. Of course, there's some vintners that also have distilled spirits interests and imported wine interests that won't like it, but that's tough.

Finally, the influence of the 1985 farm bill on the wine and wine grape industries. Speaking on behalf of the raisin producers and processors, I know that they're looking forward to making full use of the export development funds provided in the new legislation. We thank you, Senator, for helping secure these funds.

We wine grape growers also appreciate these funds going to help increase raisin exports. One painful fact that all grape growers have learned is that even though wine, raisins, and fresh table grapes don't look much alike, what happens to the supply and demand for each has a dramatic effect on the other categories.

I deeply appreciate the opportunity to be with you.

Senator WILSON. Thank you very much, Mr. Hartzell.

Mr. Affleck.

STATEMENT OF MARK AFFLECK, VICE PRESIDENT, INDUSTRY AFFAIRS, CALIFORNIA AVOCADO COMMISSION

Mr. AFFLECK. Good morning, Senator Wilson I'd like to thank you from the outset for the chance to come before you today to provide input. I have summarized my testimony, so I will be brief.[1]

I am the vice president of industry affairs for the California Avocado Commission. The commission is organized under the laws of the State of California and represents 8,500 California avocado growers.

Let me begin by touching on some general concerns relative to preferential trading arrangements, to be followed by more specific comments regarding the potential adverse effects of a United States-Mexican free trade area on our industry.

Senator, our expectations for future preferential trade arrangements can only be based on what we have seen transpire in the past. As you well know, the experiences of the California avocado industry in this regard have not been favorable. You may recall that we fought hard to have avocados exempted from the United States-Israeli free trade area on the basis that Israel, the world's leading avocado exporter, would direct its subsidized avocado production to the United States; placing severe strains on an already stressed U.S. avocado industry.

We were unsuccessful, as were all other import-sensitive agricultural industries, in obtaining the exemption. The U.S. duty on avocados will accordingly be phased out over the next 10 years.

Although not a free trade area, another preferential trading arrangement that has intensified market pressures on our industry is the Caribbean Basin Initiative. That program alone has caused U.S. imports of avocados to increase from less than 1.5 million pounds in 1982, prior to the CBI, to 3.5 million pounds in 1984.

These past experiences underscore the inadequate recognition given under preferential trade arrangements to the import sensitivity of the U.S. avocado industry and other agricultural sectors. It is feared that future trade arrangements will fare no better.

Compounding our fears is the macroeconomic concern that preferential trade arrangements, once initiated, have a tendency to proliferate; particularly with developing nations that want free access, but cannot reciprocate.

At home we are beginning to see this same multiplying principle at work. Our Government has already begun its second free trade area exercise in 2 short years. It is not the free trade area with Canada in and of itself that concerns us, rather the concern arises over what is likely to follow.

We know that a free trade area with Mexico is now being widely discussed. Some of our South American neighbors, including Brazil and Argentina, may be next in line. These nations—Mexico, Brazil, Argentina—and other developing countries all have fully developed agricultural sectors for which they will seek free access; yet they will resist, undoubtedly with success, opening their own borders on balance-of-payment grounds.

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[1] See p. 75 for the prepared statement of Mr. Affleck.

The United States simply cannot engage in one-way free trade arrangements and expect its domestic avocado producers or any other agricultural industry to survive.

Of all the developing countries that have sought or may wish to seek a free trade area with the United States, Mexico poses perhaps the greatest threat of all to the California avocado industry. That country is the world's leading producer of avocados. Although access to the U.S. market has been closed since 1914, when the United States first imposed a seed weevil quarantine on fresh avocados, Mexico has targeted the United States as a country with sizeable market potential and has repeatedly requested that the quarantine be lifted.

On several occasions in the recent past, USDA officials have examined Mexican avocado growers and found no evidence the seed weevil pest has been eradicated. Under no circumstances, free trade or otherwise, should the integrity of this quarantine be jeopardized. To do so would risk contamination of our entire U.S. production.

It is accordingly urged that the Senate Agriculture Committee exercise its leadership to discourage any effort, be it legislative or executive, to get such a free trade area underway.

As a closing statement, I would draw the Senator's attention to the fact that many of the concerns I have expressed this morning are equally applicable to the upcoming bilateral negotiations with Mexico in connection with its accession to the GATT. Although wholly unjustified by law or practice, Mexico has sought to open up these negotiations into a two-way trade concession exercise—otherwise translated as one-way trade liberalization by the United States. For reasons already stated, your personal intervention is requested to ensure the U.S. negotiators do not bow to this request.

That concludes my remarks and I thank you very much for the opportunity today.

Senator WILSON. Thank you very much, Mr. Affleck.

Mr. Dennison.

STATEMENT OF WILLIAM N. DENNISON, EXECUTIVE VICE PRESIDENT, WESTERN TIMBER ASSOCIATION, ALSO COALITION FOR FAIR LUMBER IMPORTS

Mr. DENNISON. Good morning, Senator. My name is Bill Dennison. I'm executive vice president, Western Timber Association. I'm testifying today on behalf of that association and also the Coalition for Fair Lumber Imports.[1] The coalition is comprised of major U.S. softwood lumber manufacturers associations and represents more than 70 percent of the U.S. lumber production. I appreciate this opportunity, of course, to comment on the proposed United States-Canadian free trade area.

As you are aware, Senator, the lumber industry is important to California's economy; 139,000 Californians own over 10 million acres of timberland. And Western Timber Association members are dependent upon Forest Service timber for their resources.

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[1] See p. 77 for the prepared statement of Mr. Dennison.

In 1984 about 56,000 individuals earned a total of $1.1 billion in the lumber and wood products industry in our State. That's approximately one-tenth of the total lumber industry wage earnings in the United States. Another 39,000 individuals are employed by the paper and allied products industry in California, earning another billion dollars a year. Clearly, the health of the forest products industry impacts our State.

U.S. lumber industry by any measure should be enjoying good times. We've looked forward to that for the last 5 years. The consumption of softwood lumber is at record levels, fueled by a strong housing market and by record usage of softwood lumber in uses such as home repair and remodeling. That work is booming in most all of California.

Yet despite this record consumption, the U.S. lumber industry faces disaster. The United States lost a net 629 softwood lumber mills between 1977 and 1984 and mill employment dropped by 30,000 people. In 1984 the industry had pretax losses of over $300 million and wrote off over $600 million in assets.

Canadian producers and Government representatives put forth a number of arguments to explain their progressively increasing share of the U.S. lumber market. Those arguments are discussed in the written material that I've left with you. In those we refute the issues that they've put forth as being realistic.

Why, in record demand years, is a domestic industry in such poor economic condition? Well, the primary reason for the problems faced by the U.S. lumber industry is a flood of subsidized Canadian lumber into the United States. We've talked about this subsidy in other issues this morning. I suggest we need a better definition of subsidy to assure that our rules work properly. Senator Baucus has addressed this in S. 1292.

Both Canadian and United States lumber manufacturers recognize that the source of the industry's problems is severe overproduction and the resulting recession-level prices for lumber. That source of overproduction is Canada.

More than 90 percent of Canadian lumber production comes from Federal or Provincial government lands. The Provincial Governments use noncompetitive appraisal and selling methods that result in little or in some cases no cost of stumpage to the Canadian producer. Those methods induce nonmarket related overproduction.

The Canadian Government has initiated the request for negotiations for a free trade agreement between the United States and Canada. For the domestic lumber industry, however, it is important that negotiations for a free trade agreement be preceded by significant progress toward a resolution of a devasting problem—that of low price Canadian lumber imports. Free trade is not necessarily fair trade and we're seeking the latter.

The coalition is not alone in their recognition of the problem caused by Canadian lumber imports. Last October 10 members of the U.S. Senate Finance Committee urged U.S. Trade Representative Clayton Yeutter to, quote, "seek an early resolution of the softwood lumber trade issue" in order to facilitate consideration of a free trade agreement with Canada. They said—and I quote again—"any free trading agreement must be built on a foundation of fair trading practices." End of quote.

A month later 65 Members of the U.S. House of Representatives urged Secretary of State George Schultz to—and I quote—"elevate the issue of unfair Canadian timber subsidies to a position of central prominence prior to entering into negotiations for a free trade agreement with Canada." They said further that, "efforts to reach a bilateral trade agreement between our two nations should not proceed until both sides address the Canadian lumber subsidy issue."

In response to those pleas and others, on November 26 of last year Ambassador Yeutter initiated high-level talks with Canada on the lumber dispute. In March, after the third discussion, the U.S. negotiators announced their agreement with the position of the coalition and those Members of Congress that the major problem of the domestic lumber industry is in fact caused by the stumpage pricing policies of the Canadian Provincial Governments.

To date there is no indication that the Canadians are willing to eliminate the benefit they received from their timber subsidies. For this reason we believe the House Committee on Ways and Means and the Senate Committee on Finance should withhold negotiating authority for a free trade agreement with Canada in light of their unwillingness to make significant progress toward resolving the lumber issue.

The Canadians believe that the lumber issue should be folded into the overall negotiations for a free trade agreement. This is simply a stalling tactic by Canada. It's important that negotiations for a free trade agreement be preceded by significant progress toward a resolution of the Canadian lumber import dispute.

As stated by Alan Woods, Deputy U.S. Trade Representative at the opening of the United States-Canadian lumber talks in San Diego, I quote:

> The answer is to find a way to require Canadian lumber producers to pay fair value for timber, especially that used to manufacture lumber that is exported to the United States.

He said:

> That is not protectionism. It's fairness with a strong conservation benefit attached. It's a solution that has a long-term benefit for the two nations, as well as their forest resources. It's a solution," he said, "that will restore the fair production and the marketplace, competition between American and Canadian lumber industries that will benefit everyone.

We agree with Mr. Woods and we thank you for this opportunity to state our views.

Senator WILSON. Thank you very much, Mr. Dennison.

Mr. Sharp.

STATEMENT OF ROY SHARP, LIVESTOCK SYSTEMS MANAGEMENT, REPRESENTING THE PORK INDUSTRY

Mr. SHARP. I'm Roy Sharp. I'm here in substitution for Mark Parreira in representation for the pork industry. I am an active livestock person in both cattle and swine, both on a State and national level, and am a producer, an active producer, of swine and cattle in California and plums.

I'd like to just touch briefly, Senator—and it will be brief—on some of the current situations that we have which are very similar to the scenarios which you've already heard. I think I would say that it doesn't matter what industry it is, we are essentially being all affected in essentially the same way.

It's extremely important that current information regarding situations relating to the viability and continuation of livestock production in California and the Western States be addressed. As you may know, there are only two major slaughter facilities for pork left in the United States west of the rockies. There were three until about 3 weeks ago when the Arizona Pork Producers plant in Phoenix, AZ, closed.

Simply stated, one of the major problems today primarily in the pork industry is Canadian and Danish pork imports. The live animal imports were equalized with a reciprocal trade tariff last year through the National Pork Council and the ITC. However, because of the failure of the ITC to consider carcass and product imports in the same light as the live imports, we are experiencing Canadian-owned processing terminals in California which can effectively undersell our local products by 10 to 15 cents per pound, primarily because of the relative value between the United States and Canadian dollar and the government influences in Canadian agriculture.

I cannot give you a simple solution to this problem, but it seems that this particular problem in the pork industry is similar to all agricultural products; whether it be pork, beef or any other product produced in this country. Our dollar value and our labor costs make us noncompetitive in the world market for many products if there are subsidies that are applied on the other end.

Our standard of living is so great because our agriculture and its efficiencies have kept food costs at about 15 percent of our earned dollar. This savings of 10 to 35 percent over most countries is the greatest contributing factor to the prosperity of the United States. It would be a shame to weaken the real foundation of the greatest country on earth by allowing agriculture to fall apart.

If the United States is to remain a strong economic force, it will have to determine a way for agriculture to survive profitably. Is there a way to logically compete against unfair subsidies and tariffs? Possibly reciprocal trade agreements and reciprocal countervailing duties equally and fairly administered to all products, not just the special ones. This might equalize foreign government interferences in the marketplace.

This alone will not help alleviate the unfair dollar evaluations. Would it be possible to pay for a product coming into our country in competition on the basis of the dollar of the foreign country's exchange? It would seem that this type of equalization or something like it might be in line.

Let's relate a moment to the 1985 farm bill. As an industry, the pork industry would like to be able to compete on an equal basis without Government interferences in any of the agricultural products. To cite a prime example of our continual frustration, Monday a Government buy-out of the dairy herds was instigated and yet, with all the Government's gifted wisdom, the prices for cattle and hogs fell dramatically for the last 2 days.

I understand that since the original drafting of the farm bill, the prohibition of grazing on set-aside acreages has been modified. Now grazing will be allowed. How can any industry survive when programs pay certain people for their participation in a program to reduce surpluses, but in turn allow those same subsidized people to shift to other crops or other uses that in turn will produce surpluses and problems in these alternative areas? That's a critical structure, I think, in agriculture today.

I'd like to bring out a couple other points that maybe illustrate that. In the pork industry as an example. One percent difference in volume in our market changes our dollar receipts by about $2 a hundred. Today we have a 40-cent market or $40 a hundred.

Last year Canada supplied an increased—or during the last 2 years I should say—an increased volume, total volume of pork into this country, of between 2 and 4 percent. That effectively changes our price by $10 to $12 a hundred. That's 25 percent of the total volume of our product. That's how vitally effective these different Government approaches can affect our industries, and we're not alone.

Thank you for the opportunity to speak.

Senator **Wilson**. Thank you very much, Mr. Sharp.

Let me respond to one of the points that you just made at the conclusion of your written presentation where you commented that grazing will be allowed—only very limited uses will be allowed—and then only at the option of each State's individual agricultural conservation stabilization service committee. So, I commend to your attention a little communication with the ASCS committee here in California.

Mr. **Sharp**. Needless to say, we will have that communication.

Senator **Wilson**. That did not occur by accident. That is part of what we achieved in bringing about at least a limited solution to what was posed as a far greater abuse. The nonprogram crop amendment that was contained in the farm bill now has been changed and it does require that the individual State committee, the ACSC committee, approve any additional grazing uses.

Well, gentlemen, your testimony has been very useful. If we had time, I would pursue questions with you; but the questions that I had you have pretty much anticipated and addressed in your testimony. We will impose on you further to expand on your written testimony to the extent that questions which we will submit to you for the record are not directly addressed in your testimony. Thank you very much. It's been very helpful.

Having now addressed the new round of the international multilateral trade talks, the next round of the GATT and, with our second panel, the problems attendant to the North American free trade agreements with Canada and Mexico, let us now call upon our third panel that will address the problems arising from the enlargement of the European Community.

Panel III consists of Ron Schuler, president of the California Canning Peach Association; Steven Easter, vice president of government relations of the California Almond Growers Exchange; Richard Douglas, vice president, public affairs for Diamond Walnut; and William Quarles, vice president, government affairs for Sunkist.

Gentlemen, welcome.

Mr. Schuler, you may begin.

STATEMENT OF RONALD A. SCHULER, PRESIDENT, CALIFORNIA CANNING PEACH ASSOCIATION, ALSO MANAGER, CALIFORNIA FREESTONE PEACH ASSOCIATION

Mr. SCHULER. Thank you, Senator Wilson.

I am Ronald A. Schuler, president of the California Canning Peach Association and manager of the California Freestone Peach Association. Both are grower bargaining and marketing cooperatives here in California.

On behalf of the membership of these two organizations, I wish to thank you and members of your staff for taking time out of very busy schedules to hold these hearings concerning trade matters impacting on California agriculture.

I will try and highlight my testimony as I have submitted it to you. I'll just pick out some high points that I'd like to make this morning in the best interest of time.[1]

I explicitly want to address the EEC as a market for canned cling peaches and fruit cocktail. When I say as a market, it once was a significant market for California producers. It is not today.

During the seventies our industry exported to the EEC—principally Germany—well over a million cases of cling peaches annually. By a case I'm talking about a basic case of 24 2½-sized cans with a weight of 29 ounces. Since 1980 we have experienced a rapid decline. In fact, during the last marketing year, 1984-85, California producers for canners in this State sold a total of only 7,437 cases of canned peaches for an approximate value of only $139,000 and 16,000 cases of fruit cocktail valued at only $329,000 to the EEC.

These numbers are in stark contrast to our industry's position in 1980-81, when we were selling over half a million cases of cling peaches, somewhere in the neighborhood of about $8.3 million, and 450,000 cases of fruit cocktail, again about $8.2 million. So, in 4 years we have had a decline of $16 million of gross sales just to that one segment of the world.

During this time period we have seen Greece and Italy as part of the Community meet not only the needs of the Community, but they have expanded their sales into Canada, Japan, and even to our own U.S. market.

You and your staff were very helpful in the support you gave us, to the canned fruit industry, and to Ambassador Yeutter as we struggled through the settlement of a GATT 301 case that we had pending since 1981.

With the settlement behind us, we now must ask your assistance and the assistance of other Members of Congress to assure that this bilateral agreement reached between the United States and the EEC is adhered to by the European Community. We want to make sure that the EEC lives up to its commitment to reduce the processing subsidy and not substitute another unfair trade practice to compete with our California producers.

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[1] See p. 81 for the prepared statement of Mr. Schuler.

With Spain and Portugal now as part of the Community, it is even more important that the EEC live up to that commitment.

A recent report by the USDA Foreign Agricultural Service out of Madrid, Spain, said that the United States continues to be the main destination for Spanish exports of canned peaches. Under terms of Spain's accession to the EEC, the granting of EEC production aid to Spain for canned peaches in syrup will be limited to 80,000 tons of finished product expressed in net weight during the first 4 years following accession.

They go on to say that the production aid for canned peaches in Spain and the EEC 10 will take 7 years. We see this as a production aid on all Spain's existing acreage and are not sure just what it means.

Senator Wilson, we ask you to ask our Government representatives in Europe to make sure that we as peach growers have not been party to an agreement that is now going to be circumvented with production aids or other EEC programs that will result in unfair trade practices and reduce our ability to compete in our traditional export markets.

Certain countries in the EEC currently have tremendous production capabilities and they are in need of additional markets which can only be expressed as a major concern to California specialty crops.

We know that we are the most efficient producers in the world. No one can match us in our yield per acre. No one can touch us in cases packed per ton of produce delivered. Unfortunately, the other countries have cheaper labor, they have cheaper sugar prices, they have Government subsidies or rebates, and we have health and safety standards that we must comply with that make our processors and our growers less competitive.

On the export side, last year our total exports fell to only 500,000 cases, a dramatic decline over what we have been selling in past years. Your legislative mandate giving export promotion assistance of $110 million for 3 years to include those commodities that have had successful or pending 301 cases or have been involved with retaliatory action is very helpful to California speciality crops.

We asked for and have received approval to use $2½ million for promotion of canned peaches and canned fruit cocktail in the Japanese and Taiwanese markets. It is important to us that the moneys in the next 2 years be available in a very timely manner, as with this help we can compete against the Greeks, the Italians, and the Spaniards not only in the Far East, but Canada, where we have also lost a lot of ground.

In conclusion, let me say that today growers owning 2,800 acres of peaches do not have contracts for 1986. This acreage could produce over 45,000 tons, which, if canned, would equate to the imports that have penetrated the U.S. market. Those growers—and I speaking on their behalf—thank you for your help, as your export assistance may be their only chance to sell their peaches this coming year.

Senator Wilson, we have outlined some of the problems we face. We thank you for taking the time to hear these problems and we thank you especially for being responsive to California agriculture.

specifically the specialty crops, which collectively are a large segment of California and U.S. agriculture. Thank you, Senator.

Senator WILSON. Thank you very much, Mr. Schuler.

Mr. Easter.

STATEMENT OF STEVEN W. EASTER, VICE PRESIDENT, GOVERNMENT RELATIONS, CALIFORNIA ALMOND GROWERS EXCHANGE

Mr. EASTER. Good morning, Senator Wilson, ladies and gentlemen.

Thank you for this opportunity. I am here representing the California Almond Growers Exchange, a cooperative organization that represents approximately 75 percent of the almond growers in the State of California; 75 percent by number and about 60 percent by tonnage.

The almond industry has a major stake in the export market. We, over the last several years, have averaged something in the neighborhood of 60 percent of our capacity being exported to some 88 foreign markets.

The points that I want to make have been covered in our written testimony and I would like to allude to them briefly.

First, I wish to commend you for your concentrated efforts in the international trade arena in bringing this issue to the forefront. I think your efforts and the efforts of others in the Senate and House have brought the administration to the realization that we must have a coordinated trade policy if we are going to be effective in international trade.

I think that we're beginning to see, in agriculture anyway, under the direction of Ambassador Yeutter and Secretary Lyng, the workings of an effective international trade policy going forward. I think it will be very effective and helpful to U.S. agriculture in regaining some of its trade it has lost over the last several years.

One of the issues that is the subject of this hearing is that of the GATT negotiations to come up. We've submitted for the record a number of issues that could be impacted as they relate to almonds. I won't comment on them. They're in the record.[1]

We're here on this panel primarily to discuss the EEC. As I suspected, a number of folks testifying would be prepared to comment on some of the more technical issues as relates to trade and to trade negotiations and the EEC. I'd like to stress in my testimony the effect that the value of the U.S. dollar has had on our trade, particularly in the EEC. I think it's timely to reflect on this, because it has been a major issue really since 1980 and we've seen some moderation in that overpriced dollar in the last few months and, I think, that we're beginning to recognize how true those statements made earlier were of the tremendous influence the dollar was.

Just as an example, I put together a comparison of currency values. In August 1980, the pound sterling was worth about $2.37. February of that year it was down to $1.06. It's now somewhere around $1.47. So, we've come a ways back, but we're still a long way from where we were in August 1980.

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[1] See p. 83 for the prepared statement of Mr. Easter.

Another interesting comparison as it relates to the price of almonds. One of our markets is in Germany. The German mark, the deutsche mark is now worth somewhere around $2.47, I believe it is, to the U.S. dollar. It takes 2.47 marks to make a dollar.

Let's look at how that relates to the price of almonds over the years. Back in 1980 we were selling almonds for about U.S.-$1.88 a pound. That translated into 3.33 German marks for a pound of almonds. In 1984 we were selling almonds for about $1.30 a pound, which translated into 4.11 German marks. Or, in other words, considerably higher than we had seen when almonds were U.S.-$1.88.

We're now in a situation for the first time where we've actually seen some reversal of this trend. So that almonds priced at $1.30 a pound would now cost just a little over 3 German marks, 3.04. So, we've seen some ability to increase prices without the dramatic effect that they've had previously.

Just a final comparison. That is, again, going back to the fact that U.S.-$1.88 in 1980 translated into 3.33 German marks. That same 3.33 German marks would now translate into almonds at a price of $1.42.

So, we still have a ways to go. Recent action has been important. The realization by our administration that the dollar is an important factor in international trade, I think, has been extremely helpful. Intervention in the currency market by major industrial nations as started last fall appeared to have significant influence on the overpricing of the dollar, or the corrections of the overpricing of the dollar.

Probably more importantly is the effort that you're participating in to get a hold or a balance on the deficit and to reduce the deficit. We hope that the American people have the discipline to realize that this deficit is extremely important and will have the fortitude to continue this effort to reduce the deficit and to translate that opinion and fortitude into correspondence and interface with the Congress to indicate that time is important to them.

Again, I want to stress that the last several months—about the last 7 months—we've begun to see some relief from the overpriced dollar. But the issue certainly is not resolved. We've seen the modification, the moderation in this area; but we must continue to be aware of this issue if we hope to maintain any type of agricultural trade and to regain our position as an international trader and to reduce this tremendous deficit in our balance of payments that we have in the United States.

I believe that that's sufficient in terms of my comments as they relate to the EEC. I know that others will cover other areas and we'd be happy to respond to any questions that you might have, information that we could supply later. Thank you very much.

Senator Wilson. Thank you very much, Mr. Easter.

Mr. Douglas and Mr. Quarles, as I understand it, have not yet submitted their written statements.

Gentleman, let me again point to the painful fact that it is 18 minutes before noon. We've got five witnesses left to testify. I guess I will understate the case some when I say we would appreciate your summarizing your remarks. I hate to do that, because I know that a good deal of time and thought have gone into the preparation of them. I can assure you that it is not in vain and that they will provide very useful ammunition to me in defending California's interest.

Mr. **Douglas**. Thank you very much, Senator Wilson.

Senator **Wilson**. Be brief in the way that Senators are not accustomed to behaving themselves.

STATEMENT OF RICHARD DOUGLAS, VICE PRESIDENT, PUBLIC AFFAIRS, SUN-DIAMOND GROWERS OF CALIFORNIA

Mr. **Douglas**. I'm Richard Douglas, vice president of Sun-Diamond Growers of California.[1]

Your attention to the issue of U.S.-EEC farm trade and how it will be affected by Spanish and Portuguese accession could not be more timely, Senator. Only 2 days ago the White House announced its response to Spanish and Portuguese restrictions on United States agriculture trade. Sun-Diamond was encouraged by the announcement's suggestion that at least one dimension of this dispute, the issue of Spain's variable levy on corn and sorghum, may well be resolved through compensation negotiations. In our view, the prospect of compensation negotiations is heartening, because it offers a much-needed vehicle for resolving the United States' longstanding dispute over the EEC raisin program.

You are firmly aware of the European Community's program on raisins and the impact it has had on California agriculture. Just to briefly recap.

In 1981 we filed a section 301 case before the GATT, along with the canned fruit industry. Unfortunatley, after 2½ years of negotiations, the panel, after ruling in our favor, reversed its decision based on pressure from the European Community.

Leaving aside the obvious question of whether or not the United States and the U.S. raisin industry has received proper GATT review on this complaint, the fact remains that we need to raise this issue. The prospect of compensation talks, Senator, we feel would give us the opportunity once again to raise the issue of the European Economic Community's raisin scheme.

It has, as you know had an adverse effect on California raisin growers. The elaborate system of raisin subsides and import protections has helped create an unprecedented glut in the California raisin industry. Inventories climbed from 355,000 tons in July 1982 to over 800,000 tons in July 1985.

In an attempt to hold onto our more traditional markets, the California industry has been able to forestall complete displacement from the EEC market through grower contributions and Government-supported promotional programs. As to the promotional assistance, Senator, our industry owes a special gratitute to you for your legislative efforts in mandating targeted export assistance.

We are painfully aware, however, that even with promotional moneys, our growers must still put in significant contributions of their own, which we cannot continue to do year after year and stay in business.

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[1] See p. 93 for the prepared statement of Mr. Douglas.

Should accession dispute provide an opportunity for compensation negotiations—and we hope that they would—the longstanding issue of the EEC raisin subsidies should be examined and resolved once and for all. At a minimum, the processing subsidies of the EEC raisin scheme should be eliminated. This would save our industry over $15 million annually in lost revenue.

With that, Senator, I will cut my comments short. But we do feel that the $625 million being sought in compensation by the United States for Spain's variable levies, we feel raisins deserve prominent attention. Although the record of loss to the U.S. industry was well documented in our GATT case, the GATT dispute did not afford us the opportunity to resolve this. Moreover, bilateral negotiations between the European Community and the United States have failed to date to produce any fruit. Should the accession compensation talks commence, we think this would offer a rare opportunity once again to resurface this issue.

With that, I'll cut my comments short. Thank you.

Senator **WILSON**. Thank you very much, Mr. Douglas.

Mr. Quarles.

STATEMENT OF WILLIAM QUARLES, VICE PRESIDENT, GOVERNMENT AFFAIRS, SUNKIST GROWERS, INC.

Mr. **QUARLES**. Thank you, Senator. My name is William K. Quarles. I'm vice president of government affairs for Sunkist Growers, Inc.[1]

Sunkist and its 6,000 growers wish to commend you, Senator, for undertaking this hearing to develop information impacting our ability to export and for your intense and continuing interest in agricultural trade. We're sure you are as concerned as we in California agriculture are that our exports are declining.

As you well know, California agriculture exports about a third of its production. The citrus industry is no exception. Sunkist is about 60 percent of the California citrus industry and roughly one-third of our $840 million in revenue last year was from exports. So, our export markets are absolutely vital to us.

Agriculture, unlike industry, cannot bring supply and demand into balance by speeding up or slowing down the assembly line like industry can. This is particularly true for these markets. They simply have to take what Mother Nature provides each year and sell it.

When our traditional export markets dry up, we must find new export markets or market it domestically. This simply oversupplies the domestic market. As you know, overproduction is what makes farmers go bankrupt.

With that as background, I'll endeavor to comment on some of the specific topics on which you've requested testimony. These comments will, of course, be from a citrus industry perspective.

On the outlook for California farm exports concerning the accession to the European Community of Spain and Portugal, the outlook is not a good one. As you know, the California/Arizona citrus industry has been severely damaged to the extent of approximately

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[1] See p. 95 for the prepared statement of Mr. Quarles.

$45 million per year by the discriminatory tariff preference scheme the European Community provides on citrus. That has been in place since 1969.

During this time of year while California growers may pay a 20-percent duty on the land of value of oranges exported to the European Community, Morocco pays 4 percent, Israel pays 8 percent, Spain pays 12 percent, and all other Mediterranean-based citrus producers are sprinkled in at one level or another between 4 and 12 percent.

This provides a major competitive disadvantage to California. Not only do we have the higher transportation costs to overcome, we have this tremendous disparity on tariffs. This is a blatant violation of article 1 of the GATT, the most-favored-nation provision.

Spain is a major citrus producer. Eventually, Spain's tariff will phase to zero as they become a full-fledged member. Because of Spain's geographical proximity to the other major market areas within the Community, Spain will have a competitive advantage over the other preferred countries, such as Morocco and Israel.

Accordingly, we can expect citrus volume from Spain to displace citrus from Morocco and Israel in the European Community, much in the same way the discriminatory tariff preference scheme has allowed Moroccan and Israeli citrus to displace California citrus in the European Community.

When the Moroccan and Israeli citrus is displaced from the European Community, a home for it must be found. We are seeing a great deal more Israeli and Moroccan citrus in the United States. As a matter of fact, with the United States-Israeli free trade area, which simply means that Israeli citrus comes into the United States duty free and with absolutely no modification of duties on citrus going the other way, it appears the United States is encouraging this result.

This is simply another instance where U.S. foreign policy gets tangled up with U.S. trade policy and U.S. traders in general and California farmers in particular got the worst of it.

I'll skip some comments and later submit them for the record, if I may—comments on particular objectives that we might shoot for in the forthcoming round of multilateral trade negotiations—and comment just a moment on future bilateral free trade agreements, what impact will future trade agreements such as the one currently being contemplated with Mexico have on the California economy.

In the view of citrus industry, it will have a severe negative impact on the California agricultural economy if future free trade agreements end up the same way the United States-Israeli free trade area ended up; with agricultural trade free coming this way and virtually unaffected going the other way.

Now, just a moment on the influence of the 1985 farm bill on California farm exports. This major measure, we believe, will have a significant positive impact. Primarily, the beneficial provisions are in the targeted export assistance provision; which you not only fought to have included in the farm bill, but also fought to save it from elimination in the so-called farm bill II.

We are well aware that the $325 million originally in that bill was eliminated and virtually solely through your efforts was $110 million restored. This money will enable many in California agriculture, particularly many commodity groups suffering from illegal trade activities of our foreign trading partners, to reintroduce their products into traditional foreign markets and otherwise develop new markets.

The citrus industry not only applauds your efforts, but particularly applauds the results of those efforts. We thank you, Senator.

[The following letter and enclosure were subsequently received by the committee:]

SUNKIST,
May 5, 1986.

Hon. PETE WILSON,
U.S. Senate, Washington, DC.

DEAR SENATOR WILSON: This is in response to your questions on the Enlargement of the European Community submitted with your letter of April 22.

The forthcoming enlargement of the European Community to include Spain and Portugal differs to a great extent from the earlier enlargements that brought in Great Britain, Ireland and Denmark in 1973 and Greece in 1981. The major impact will be primarily from Spain from a California agriculture prespective. Spain has a climate and soil condition much like California. For that reason Spain is a major international competitor in many of the fruits and nuts of importance to California agriculture such as citrus, almonds, wine and olives. Eventually Spain and Portugal will be shipping competitive agriculture products into the European Community at zero duty. We can expect Spain to be extremely creative in joining with Italy, Greece and Portugal in developing barriers to imports into the European Community for California agricultural products. Finally, in third markets such as Canada, Spain and Portugal will receive the benefit of EC's subsidy programs to make them more competitive.

It is extremely important at this time that the U.S. be firm in its demand for fair trade in world markets, including those of the European Community. It is believed many of our agricultural trade problems stem from a U.S. history of backing away from pressing the legitimate demands of U.S. farmers. The European Community fully expects us to do it again. Accordingly, it is necessary that the U.S. stand firm and take additional retaliatory steps in the event the European Community is not forthcoming at this time. This may lead us into a series of retaliatory and counter-retaliatory trade measures. So be it! At some point, the European Community will understand the U.S. is finally serious. Only then will the European Community undertake its obligations to the U.S. to be a fair trading partner.

Enclosed is a copy of the statement of the California-Arizona Citrus League presented on April 17, 1986 to the Trade Policy Staff Committee concerning the President's announcement mentioned in your third question.

Respectfully yours,

WILLIAM K. QUARLES,
Vice President, Government Affairs.

Enclosure.

STATEMENT OF WILLIAM K. QUARLES, JR., PRESIDENT, CALIFORNIA-ARIZONA CITRUS LEAGUE, BEFORE THE TRADE POLICY STAFF COMMITTEE—HEARING ON U.S. ACTIONS IN RESPONSE TO RESTRICTIONS IMPOSED BY THE EEC IN CONNECTION WITH ACCESSION

This statement is being submitted by the California-Arizona Citrus League in accordance with the Federal Register notice of April 3 inviting public comment on appropriate actions to take in response to restrictions imposed upon United States agricultural trade in connection with Spanish and Portuguese accession.

The California-Arizona Citrus League is a voluntary, nonprofit trade association composed of marketers of California and Arizona citrus fruit. Members are farmer cooperatives and independent shippers that represent over 75 percent of the citrus growers in Arizona and California. These growers produce oranges, lemons, grapefruit, tangerines and limes. Their fruit is marketed in both fresh and processed forms. The league speaks on behalf of the California-Arizona citrus industry on matters of general concern regarding legislation, foreign trade and related topics.

Less than one year ago, the California-Arizona Citrus League was before this Committee in the context of another retaliation hearing—that one relating to appropriate unilateral actions for the United States to take in response to the EEC's unwillingness to correct its illegal Mediterranean tariff preferences on citrus. It is regrettable that the issues addressed then remain unresolved.

Our industry's participation today has a two-fold purpose: (1) to renew the call for a solution to the citrus dispute, as this would aid in the resolution of the accession issue, and (2) to urge that if the accession dispute can be quickly resolved, it be used to promote, but in no way interfere with, a solution to the citrus case.

A meaningful resolution of the citrus 301 case has become a political and economic necessity for the United States. Over the past sixteen years, the United States has sought a practical solution to this problem through bilateral consultations, multilateral tariff negotiations, and GATT dispute settlement. Despite a GATT panel recommendation in 1984 that the EEC's preferential tariff scheme has upset the balance of rights and obligations on fresh oranges and lemons from the United States, the EEC still has not given consideration to the United States' concerns.

Having no other option for achieving relief, the President determined on October 31, 1985, to seek compensatory retaliation from the ECC by increasing the duty on EEC pasta by about 10 cents a pound. In counterretaliation, the EEC unlawfully raised its duties on lemons from 8 percent to 20 percent and on shelled walnuts from 8 percent to 30 percent. So that the Italian pasta industry would not feel the effects of the United States' duty increase, the pasta restitution payments were greatly enlarged.

Since this retaliatory and counterretaliatory exchange occurred six months ago, little progress has been made in achieving a citrus solution. Despite best efforts by United States negotiators, who have aggressively pressed for citrus relief, an EEC settlement offer has not even been put on the table. Settlement deadlines, some of which have been set by the EEC itself, have been ignored over and over again. EEC negotiators are now confessing that there is no resolve within the Community to alter the status quo.

While beneficial to the EEC, the status quo is unacceptable to the United States. Not only have our GATT rights been thwarted, so too have our rights to compensatory retaliation. Worse still, the status quo has translated into millions and millions of dollars in economic injury to United States commercial interests. EEC citrus preferences alone have caused the United States citrus industry to lose on an annual basis $48 million, which, if aggregated over the duration of the offending practices, comes to $720 million. The counterretaliatory measures by the EEC have inflicted an additional $9 million in damage on the U.S. walnut industry, with more expected, as well as $1,125,000 of additional damage on California-Arizona lemon growers.

For relief from these damages to be meaningful and consonant with GATT law, the EEC must extend to the United States treatment on oranges and lemons equivalent to that being provided to the Mediterranean beneficiaries. With the new accord being developed between the EEC and Mediterranean suppliers, which would stage to zero Mediterranean citrus duties, equivalent tariff treatment is all the more essential.

Given the course of current bilateral efforts, however—which by all accounts have virtually broken down—United States officials are not optimistic that relief in any form will be forthcoming in the near future. It has become evident that action will need to be taken by the United States to heighten EEC interest in achieving a solution. No other option exists.

If additional unilateral measures are taken on citrus, the EEC may be less inclined to test the United States' resolve on the accession issue. Further, if additional unilateral measures taken in the citrus dispute serve to facilitate a citrus solution, this should create positive momentum for taking on and resolving the issues regarding enlargement.

The central message for this Committee is that aggressive efforts of resolve the citrus action can only enhance the United States' efforts to settle the accession issue. This Committee is accordingly urged to dedicate itself to that result.

Pending a solution on citrus, it is understood that there is some possibility that bilateral negotiations on accession may lead to a near-term correction of the Portuguese restrictive practices and an adequate offer of compensation in connection with Spanish trade restrictions. The California-Arizona Citrus League would welcome this result and would urge that the opportunity not be lost to fold into the compensation package a citrus solution that is fully consistent with United States' rights. In the event that a compensation package is not forthcoming from the EEC in connection with Spanish variable levies, we would urge the United States to continue to pursue the citrus case along its own track, taking all aggressive measures necessary to dislodge and solve the dispute.

If efforts along both of these tracks prove unsuccessful in providing relief to our industry, the United States may have to acknowledge publicly the failure of GATT and the 301 process. Under these circumstances, the President should request Congress to delete that GATT appropriation as a further budget-cutting measure, since the United States derives no benefit. It is hoped that this outcome will not be necessary.

Senator **Wilson**. Thank you very much, Mr. Quarles.

Let me comment, as time will permit me to do so only briefly, that Mr. Douglas, in making his presentation, has responded, as I have invited other commodity groups to do, in his suggestion that the frustrating history of the raisin industry's 301 complaint makes it an appropriate candidate to be considered by the President and the United States Trade Representative as an area for retaliation against the EEC in response to the enlargement of the Community by the accession of Spain and Portugal.

I find that not only a convincing presentation, but it's one that I commend to other California commodity groups. I think that since California is particularly targeted—or at least, if the result is unintended, we are the ones bearing the brunt of the accession of Spain and Portugal. The unfair trading practices of the EC will not only be expanded, but we will suffer very pointedly because of their addition.

We are entitled to compensation, as has been earlier observed. If we cannot get it to our satisfaction, we are obliged, I think, then to take offsetting retaliation and withdrawals against the substantial preferences that we afford to European commodities. Each of you may in turn suggest that the commodities that you represent are suitable for exercising U.S. leverage in that regard. I cannot urge you too strongly to do so.

Gentlemen, thank you very much. Again, we may submit additional questions to you. The questions specifically relate to individual commodity groups, to individual nations, to how the experience in this accession will differ from the past. We will take advantage of your interest to let you expand upon the excellent statements that you've made here this morning. Thank you very much.

The final panel—one dealing with export provisions of the 1985 farm bill—consists of Ralph S. Newman, Jr., president of Farmers Rice Cooperative; Larry LaTouf, the executive vice president of Calcot Ltd; and Malcom Leiser, chairman of the California Wheat Commission.

Mr. Newman.

STATEMENT OF RALPH NEWMAN, PRESIDENT, FARMERS RICE COOPERATIVE

Mr. **Newman**. Thank you, sir. Senator, I'm Ralph Newman, president of Farmers Rice Cooperative. We market a substantial portion of the California rice crop, both domestically and internationally.

As is true of many other commodities, we typically look to the international markets for a substantial portion of our annual sales; typically for rice from 50 to 60 percent per year in recent years. Our problems in the international arena of rice are simply put in three words—price, access, and credit.

The new 1985 farm bill, we think, gives the rice industry and the California rice industry a great new tool to work with and one we appreciate you supporting. That is the new marketing loan concept that becomes effective on April the 15 of this month. The industry is quite positive about the effects that we think that this program is going to have in making our prices more competitive in international markets. That is provided, of course, that the program is administered in a way I think that the authors of the bill intended.

I just wanted to take the opportunity this morning to call to your attention that the Government of Thailand—and the Thais remain our principal competitors in the international area—have mounted a very large scale, a very well-coordinated effort in Washington and in Bangkok to attempt to get various agencies of our Government to plead their case for mitigation as to how competitive we actually are.

I think the industry is going to have to continue to be vigilant in seeing that we remain competitive as this legislation intends. To that extent, we would appreciate the continued support of your office in helping us do that.

Given the fact that we now have legislation that will permit us to be price competitive, we still have a substantial problem with access. I'd like to pick just two examples, one of which other speakers have commented on this morning. But let me take both Japan and Korea, for example.

In California we produce, uniquely in the United States and uniquely among most other exporting nations, the type of rice that both Korea and the Japanese consumers prefer. In fact, many Japanese or Koreans will tell you that California rice is superior in quality to that domestically produced.

I might point out that we happen to produce a type of rice that Thailand doesn't produce, is not likely to produce and, therefore, we do not anticipate any large-scale competition other than from Australia.

In a nutshell, Japan produces about 10 times the amount of rice we do in California, Korea about 5 times that amount each year. According to the Japanese Government's latest figures, which have been verified by FAS, it is costing about 10 times as much to produce this rice in Japan as we can profitably produce it for in California. It is costing about eight times as much to produce rice in Korea as we can produce rice profitably in California. However, our access to both of those markets, even now with U.S. price competitive to the world market price levels, we anticipate to continue to be zero.

To give you some idea of what, for example, a 3-percent share of the Japanese market would mean to us; were we able to supply 3 percent of their domestic demand, it would represent a 33-percent increase in sales of California rice. If we were allowed an access of 10 percent of the Japanese market—which, again, I point out we can produce profitably at one-tenth their domestic cost of production—that would represent 100 percent of the present California production.

So, in our case we have a commodity that is now going to be price competitive, but our problem is simply getting it into markets where we can sell it.

With respect to the trade title of the 1985 bill, we too have a very positive outlook as to how we think that the many credit tools can interact with our new competitive price levels to help us regain markets that we have lost and should have retained in recent years.

In the industry we're currently active in working with Mexico and Peru as examples of countries that have the need to import substantial amounts of California rice. Again, we will have that rice available and we anticipate at competitive prices; but it's simply a problem of credit.

The same is true in Brazil, which is suffering from a substantial drought. We anticipate that Brazil over the next year, for example, will import 1½ million tons of rice. Again, we think that we can be reasonably price competitive in supplying that rice provided some of the tools that are permitted in the new farm bill are funded and can be used.

In closing, I'd simply like to say that it's our view that dollars that are appropriated and used in the credit area results in a much greater leveraging effect and ultimately a much lower expenditure in Government funds than those same dollars being spent in price support and deficiency payments as a result of our lack of being able to achieve potential sales. Thank you, sir.

Senator WILSON. Thank you very much, Mr. Newman.

Mr. LaTouf.

STATEMENT OF LARRY LaTOUF, EXECUTIVE VICE PRESIDENT, CALCOT, LTD.

Mr. LATOUF. Thank you. My name is Larry LaTouf. I'm executive vice president of Calcot, Ltd.

Calcot is a grower-owned cotton marketing cooperative based in Bakersfield. We represent over 3,300 producers from California and Arizona who produce nearly 2 million bales of cotton. While this represents about 15 percent of the national production, we normally ship about 25 percent of the country's exports, since 70 percent of our cotton is usually exported. Because of this, the ability to compete in the world market is critically important to our growers. My comments today will be brief in order to allow time for discussion.[1]

During the 1970's and early 1980's cotton exports from the United States averaged about 6 million bales, peaking to over 9 million in 1979. Farm legislation provided for income supports for American producers, but we were able to compete in the world markets. However, the strong dollar policies of the early eighties amounted to a 50-percent subsidy to foreign producers, encouraging surplus production worldwide. With the combination of an income support program and this implicit subsidy to foreign growers, U.S. cotton was priced out of foreign markets.

For the 1985-86 season exports will fall to the lowest level since about 1955, about 25 percent of the exports of 1979. Since U.S. mills consume only about 50 percent of the cotton grown in the United States, it was imperative that we recapture lost markets.

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[1] See p. 98 for the prepared statement of Mr. LaTouf.

While the trade title of the 1985 farm bill does contain some provisions addressing this problem, it was the general commodity provisions that will make the biggest impact.

While some people have commented that there was no major shift in foreign policy, we do not believe this to be true. While income supports were maintained for American producers, the bill allows for U.S. commodities to be sold into the world market at competitive prices.

I'll devote most of the comments to the market enhancement provisions of the farm bill, because they're the most important to the cotton market. Before I discuss the market enhancement provisions, let me make some reference to the trade title of the farm bill.

Credit programs have always been important to export sales. We urge that these programs be maintained and fully funded. The credit guarantee programs make trading possible, while not placing undue costs on the American taxpayers.

The trade title also provided for an export enhancement or bonus program. We do not support subsidies for exports of raw cotton from the United States while not providing for a similar price to American mills. The only thing that is accomplished by a two-price system is to shift production of textile products from the U.S. mills to foreign countries, exacerbating the textile trade deficit. If the export bonus program is to benefit cotton growers, it should apply to the exports of value-added cotton products such as textile exports.

The market enhancement provisions of the farm bill provide a framework which mandates that U.S. cotton be available to the world market at competitive prices. The impacts of this policy have already been felt. Weekly cotton export sales from the current crop continue to languish, averaging only 15,000 bales; while sales of new-grown cotton, available at competitive world prices, are currently averaging above 60,000 bales. Sales to date stand at 40 percent above where they were a year ago.

For the market enhancement provisions to work, cotton must be made available at competitive prices. This means that the formula for the adjusted world price must allow U.S. cotton to compete. However, we must remember that U.S. cotton has never needed to be the cheapest growth in the world to sell. Establishing a system that guarantees that we are always the lowest growth will put in place a predatory system that guarantees failure in the long run for the market enhancement program.

We wonder if including the U.S. quotes in the world price formula does not allow for a snowball effect with predatory prices when U.S. prices become competitive. Using a price that is too low may allow us to sell cotton this season, but we must remember that our growers are in business in the long run. If the costs of the program become too high, its future is in doubt.

On a recent foreign trip, I discovered that many foreigners already believe that our farm program will only last a single season. As a result, they are not reducing their acreage, which is the only way that the surplus situation can be corrected in the long run. Instead they believe that if they can hold on for one season, that the cost of the market enhancement program will cause it to be discontinued. We must convince the world that this is a long-term program, that the United States is fully committed to competing in the world market.

In addition to our concerns about the market enhancement provisions, we are very concerned that an unexpected impact of the administration of the Gramm-Rudman cutbacks will create chaos in the cotton market. We need to correct this problem immediately. We are not suggesting that the Gramm-Rudman cuts not be made. Indeed, nothing is more important to the long-term viability of our cotton industry than correcting our budget deficits.

Let me explain how the Gramm-Rudman will affect the cottongrowers. Growers will have two separate choices on how to receive the benefits of the market enhancement. They can choose to place all of their cotton in the loan at 55 cents. However, since all of this payment is in cash, they will actually receive 4.3 percent less than 55 cents, or 52.63 cents. They will then be able to repay this loan at 44 cents, so the market enhancement benefit to the grower is 8.63 cents.

On the other hand, a grower can choose to forgo the loan and instead receive a loan deficiency payment of the difference between the loan, which is 55 cents, and the loan repayment level, 44 cents. This difference of 11 cents will be half in commodity, payment in kind, and half in cash. The 5½ cents in cash will be subject to the 4.3-percent reduction, so that the grower will receive 5.26 cents.

The total benefit of the market enhancement, therefore, will be 10.76 cents, versus 8.63 cents in the loan. This will cause many growers to forgo the loan, which will make the cotton ineligible for the price support.

This is particularly true since the USDA is interpreting the farm bill as requiring the producer to either use all the loan or all the loan deficiency payments. This means that a grower who decides to receive a loan deficiency payment on a single bale will make all of the rest of his crop ineligible. When all of this ineligible cotton is combined with the payment in kind that will be returned to the producers, the amounts of cotton ineligible will be forced on the market.

The only result will be for the U.S. prices to fall so low that growers will be better off in the loan, which means that U.S. prices will need to be over 2 cents below prices in any other country in the world. As a result, the cost of the farm program will skyrocket and we will have a predatory system.

We believe that this problem can be corrected by allowing producers individual bale discretion on whether to use the loan or loan deficiency payment. Hopefully, this can be accomplished administratively by letting the USDA know that it was not the intent of Congress to make this an all-or-none decision, nor to restrict in any way the amount of cotton that can enter the loan.

At this time there is perhaps no more important issue for the cotton industry than clearing up the unexpected impact of Gramm-Rudman on the grower's decision to use the loan.

Generally, we believe that the 1985 farm bill took a big step toward allowing us to recapture our lost markets. If we can administer this program such that foreign producers believe that we are serious about our intent, we believe that U.S. cotton will again be a major factor in the world cotton market.

Congress has provided an atmosphere which allows American producers to regain lost markets. However, we realize that we must also play a role. We will only regain these markets by aggressively promoting our products. With the ability to compete, it is still up to us to prove that we can. We believe that the American producer is the most efficient in the world and he intends to prove it.

Thank you very much, Senator.

Senator WILSON. Thank you very much, Mr. LaTouf.

Mr. Leiser.

STATEMENT OF MALCOLM LEISER, CHAIRMAN, CALIFORNIA WHEAT COMMISSION

Mr. LEISER. Thank you, Senator.

I'm aware of the fact that I'm the last one on the agenda. There's one advantage I can think of to being the last one. That is that everyone will listen very closely to what I say so they will know when I'm done and they can go out to lunch.

I'm Malcolm Leiser, a rice, wheat, and tomato grower from Woodland, and it's my pleasure to appear here today as the chairman of the California Wheat Commission. We were asked to comment on some specific issues and appreciate the opportunity to do so.

I would just like to make a few brief comments on the new farm bill and the trade provisions that it contains.

First, I'd like to say that I think the direction of the farm bill is in the right direction. That is, to sort of reiterate what—or not reiterate, but to emphasize some of the points that Ralph Newman made with regard to the market loan concept. It's our feeling and I think generally the feeling of growers of basic commodities in California that these new programs will enable a return to a competitive posture by sellers of California's commodities.

As an example of just how far away from being competitive in the world market many California commodities are; despite the tremendous fall-off in the prices of barley over the last several months, it was still cheaper for a provider of barley to local feed lots to import new Zealand barley into California last week. So, the point here is that the direction taken by the new farm bill is correct. There's a lot of ground to be made up. Nevertheless, despite, I think, the appropriate direction of the new farm bill, there are some concerns that we have regarding some specific provisions. They pertain primarily to the trade provisions.

First, the Export Enhancement Program. It has been widely criticized and much of that is justified. It is seen by some of our best customers as being punitive. That is, some countries—South Korea, Taiwan, and Indonesia, to name three, all of which are large customers of United States agriculture and tremendous potential customers for California wheat—complain that the Export Enhancement Program is only available to countries which are marginal buyers of United States grain and whose main supplier is France.

Other countries which have been major buyers of American grain, including California wheat, have specifically cited the unfairness of the implementation of the Export Enhancement Program as a primary reason for not buying American agricultural products. Two countries that come to mind that have made that specific complaint are the Soviet Union and the People's Republic of China, two countries which as recently as 1981 were taking 80 percent of the export of California wheat.

The point here is that the Export Enhancement Program should be reviewed with the idea in mind to expand its application so that exports may not only be expanded, but so that they may not be further contracted.

A point on the cargo preference. I realize it's a complicated and a confusing issue whose domestic political fallout has made it a very difficult issue to resolve. But there is no gainsaying the fact that it has a direct and negative impact on U.S. agriculture exports and primarily on the basic commodities—rice, wheat, and corn.

That impact is being further amplified by the recent directive that the CCC budget is responsible for the additional 10 percent of the maritime subsidy that was to have been payed by the Department of Transportation. Among other things, this has the effect of exhausting CCC's Public Law 480 funds at an earlier date, with obvious and negative impact on agriculture exports.

We'd like to express our appreciation to you, Senator, for your sponsorship of the Targeted Export and Assistance Program. As others have said earlier—and I certainly want you to know that with regard to a specific cargo of wheat to Italy a few months ago, which was canceled in violation of some GATT provisions, that particular program will be beneficial to those who lost that sale.

While not in the farm bill, the new budget proposes a 50-percent reduction in appropriation to the FAS. Frankly, that is a penny-wise and pound-foolish move. Every observer of and participant in U.S. agriculture agrees that exports and foreign sales are vital to survival and yet the one program which has proven the most effective over the years for maintaining and increasing exports of basic crops is being cut in half. If we are sincere in the claim of interest in increased exports, the FAS budget is the last place to save money.

Finally, I would like to make just a quick comment on the general credit programs that are in the farm bill. They're very important to increased sales and to maintain the market share and it's very important that those programs would be funded as proposed.

Finally, I'd like to conclude by expressing my appreciation for this opportunity and to express a personal feeling; one, though, that I think is generally held by farmers in California. That is, that the interests of agriculture never seem to be as important as the other interests of Government; whether it's missile bases, naval facilities, votes in the United Nations, or efforts to aid another country's economy. And that while always before deferring to these other national interests has been accepted with equanimity by farmers, the situation of agriculture no longer permits that sort of a tolerance and, indeed, sacrifice.

It is hoped that Government leaders realize the dire circumstances of agriculture—California agriculture—and be mindful of its inability to sustain further encroachments on markets from unfair trading practices of competitors. Thank you very much.

Senator WILSON. Thank you very much, Mr. Leiser.

Let me say that I share your concern with respect to the proposed cut in the cooperative program and intend to make a great deal of noise about it in opposition to it.

Let me make a couple of other quick observations.

Mr. LaTouf, your concern about the all-or-nothing choices in the cotton program. I think that's a legitimate concern. Last week I wrote to Secretary Lyng expressing my concern about the problem and I will pursue it. I also intend to get it resolved.

I would invite you, Mr. LaTouf, and, in fact, all the members of the panel—Mr. Newman and Mr. Leiser as well—to express to me what is not necessarily a statistical view, but really your concern or your lack of concern, if that be the case. But I'll just ask you if you are optimistic, as some of your industry colleagues, in terms of the outlook for rice and wheat exports.

And, Mr. Newman, I gather you were making your presentation from notes?

Mr. NEWMAN. Yes, I am. That's because the situation changes so frequently, Senator.

Well, with response to your question about the market being low, the statutes say that this will be administered in a way to make U.S. rice competitive. Of course, the debate is what does the word "competitive" mean.

We don't happen to think that it means that you always have the lowest price in the world no matter what. But we do think it means that if the statutes contemplate that we're going to produce a certain amount of rice and we produce and we've got a certain share of world market maybe over a 5-year period, that we should have a price that is competitive quality considered enough times over a season that we're able to achieve that target level of sales.

I think that in order to do that, of course, someone's going to have to give up some ground that they've captured from us. Therein comes the problem of the Thais. The Thais have doubled their exports largely at our expense and this bill mandates that we be competitive. And they consider us having a price that will still be substantially greater than theirs, because of quality considerations and other things, as being basically an unfair trade practice.

They do seem to have a rather sympathetic audience. As Malcolm said, the strategic interests of the United States and Asia are unquestioned and the Thais have been friends and there are many other complications. But we still think that all of that can be accommodated and this program be made to work at the same time. They'd like, of course, to make no concessions.

Senator WILSON. I was struck by the impressive statistic that you presented regarding growth potential in the Japanese and Korean markets. I'm going to request that you expand upon that in writing for the record on barriers which exist in those and in other countries to achieving that market share, as well as specifying as nearly as you can what the economic impact of those barriers really are upon California rice producers.

Finally, let me make two comments. Mr. Schuler's testimony made a very valid point. He mentioned that foreign growers frequently use pesticides and are engaged in practices which are illegal here. Imported produce often violates grade and quality standards well below those that are required under Federal and State marketing orders.

For these reasons we have asked the General Accounting Office to make an examination of this problem and specifically to catalog the consequences of foreign failure to meet the standards prescribed in a number of U.S. acts—FIFRA, the Food, Drug and Cosmetic Acts, a number of others—that set health and quality standards to evaluate what the impact is in this very different treatment in terms of health and safety and the resultant cost to American producers.

That report is due this summer. We have asked them as well to make specific legislative recommendations in those areas that call for them.

When we have the report, we will invite those who have been witnesses this morning and other industry representatives to make their own evaluation of the report and your own recommendations for either administrative or legislative response. The issue is one that involves fairness and the ability of California and other U.S. producers to be competitive, as well as the very serious health and safety questions affecting American consumers.

Gentlemen, we thank you. We thank all who have been present this morning and taken their time and effort to make a record that I think is going to be of extreme value.

Also, I wish to express my gratitude to those who did not appear personally, but have submitted written testimony. Specifically the Pacific Egg & Poultry Association, the Pacific Agricultural Cooperative for Export, Calavo Growers of California, and Pacific International Rice Mills, Inc. Each have submitted extensive written testimony that will be a part of the record.

To all who have participated personally and in particular and who have taken a great deal of time and effort not only to be here, but to prepare for your appearance, my very sincere thanks. The efforts that you have made, I think, are worth it. Last year a similar hearing produced some results. The struggle goes on and we cannot afford to relax. But without the kind of information that you've provided here—the specific factual data, the statistical data specifying the impact of a number of abuses—we really aren't able to quantify in persuasive terms the kind of steps that we think are necessary.

So, it is extremely valuable and I thank you and without more, we are adjourned.

[Whereupon, at 12:25 p.m., the committee adjourned, subject to call of the Chair.]

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APPENDIX

STATEMENT OF HON. JIM NIELSEN, A CALIFORNIA STATE SENATOR

Senator Wilson, staff, Director Berryhill, distinguished guests:

As the first speaker this morning and as Republican Leader of the Senate, I take great pleasure in welcoming you to Sacramento.

The issues you seek to address today are central to the economic future of California's and the nation's agriculture. We have made recent national policy changes regarding agriculture: no longer will producers receive income by defaulting on storage loans; the key to future economic well-being will lie in sales on the international market.

Suddenly, the topics before you today, GATT, the European Common Market and free trade zones will become as familiar to us as the price of diesel fuel or a new tractor were 10 years ago. American farmers will rise to the challenge and master these new concepts in the the same way they mastered efficient, economic production. The contrast between the new topics and the old also points out our prior preoccupation with production. The focus now will be on the final consumer and marketing stands as an equal partner to production.

You will be hearing considerable expert testimony this morning and I just want to touch on two items relevant to your considerations. The first item is the effort by the State to promote California's agricultural products in world trade. The Legislature has seen fit to appropriate general funds to establish agricultural trade offices in major international trade centers. I am sure Director Berryhill will describe that program in greater detail.

The second item relates to interest in repealing the state's current "unitary" method of taxing multi-national corporations. Without going into the details of efforts to modify current law, I would point out that I have raised the issue of perceived barriers to the marketing of our agricultural, timber and high technology products. In other words, if multi-national corporations are interested in seeing the state's unitary tax repealed, I want to make sure our products have easy access to markets of the home countries of those corporations. It is my conviction that only by bargaining from strength can we achieve access to markets that have been closed to us.

On behalf of the Senate and my agricultural colleagues, I thank you for holding this hearing to hear our concerns and also to help educate us to the new realities with which we must learn to contend. Good Luck.

STATEMENT OF CLARE BERRYHILL, DIRECTOR, CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

Senator Wilson and members of the Committee. I am Clare Berryhill, Director of the California Department of Food and Agriculture. I appreciate the opportunity to participate in your hearing this morning and share views about California agriculture.

Background

California's agricultural economy is heavily dependent on foreign markets and their loss is evident in sharply-curtailed income and farm and ranch failures. Barriers to trade, the high value of the dollar and foreign competition that is often subsidized are creating a serious economic situation in California's agricultural sector. The decline of agricultural export value from $4.2 billion in 1981 to $2.9 million in 1984 is the result of these negative influences. (See appendices 1 and 2.)

California's leading agricultural exports are cotton and almonds. In 1984, 70 percent of the cotton and 53 percent of the almonds were sold in international markets. These percentages were higher in previous years. On the average, one acre in five of California's crop land is now dependent on foreign sales.

California agriculture has experienced sharp declines in exports. Wheat and rice exports have both fallen to less than half of their 1981 peak. The impact of trade barriers, competition from emerging foreign producers selling well below our high dollar value prices and economic adversity among our buyers, are all contributing to an extremely difficult position for California's ranchers and growers. Without foreign markets many will be going out of business.

Historically, California's leading agricultural export market was Europe. With the formation of the European Economic Community (EEC), we gradually lost a high percentage of this market due to the common agricultural policy. Their system of open-ended variable tariffs has been discriminatory and devastating to nonmember nations.

Now, our leading agricultural export market is the Pacific Rim countries. They take approximately 62 percent of our agricultural exports. Japan is our largest single market, taking 31 percent of our agricultural exports. (See appendix 2.) Even with these markets we are still faced with tariff and non-tariff barriers which impede the flow of our commodities.

Spain and Portugal into the EEC

We are now confronted with another new and serious issue---the entry of Spain and Portugal into the EEC effective January 1, 1986. This will adversely affect California agriculture in two ways.

1. **Trade with Spain and Portugal**

   We export rice, cotton, walnuts, prunes and safflower seeds to Spain and Portugal. Their entry into the EEC will bring them under the same common policies that heavily contributed to the loss of the European market. We expect to lose a high percentage of our trade with these two countries as we did with the other EEC members.

2. **Trade with European Economic Community**

Spain produces many of the commodities that we do. Until January 1, 1986, Spain and Portugal compete in the EEC on a similar basis to California. With both of these countries included in the EEC, they will receive preferential treatment in the sale of their agricultural products. They will also receive encouragement to produce more of the EEC's requirements.

They will have the advantage of both proximity to the EEC and no tariffs in a few years. This will give them impetus to expand their production of almonds, citrus, wine, walnuts, strawberries, avocados, fresh fruits and vegetables. As Spain, particularly, obtains a competitive advantage in the EEC, this will reduce our exports to these countries even further.

1985 Farm Bill

The 1985 farm bill should have a positive effect on the export of many California agricultural products. It continues the USDA, Foreign Agricultural Service's "Foreign Market Development Program." California has a number of commodity groups that participate in this worthwhile program.

Another positive aspect of the 1985 farm bill is the establishment of $110 million for foreign market development to assist those agricultural industries who have been injured through unfair foreign competition. Our cling peach industry has already been awarded $2.5 million this year and it is hoping to obtain $5 million next year. Our walnut industry has recently received $7 million from the same program. We expect our agricultural exports will increase through these export market development programs.

The acreage set-a-side features of the 1985 farm bill for "program" crops, such as cotton, gave us a scare. Originally, the bill would have permitted these idled acres to be planted to nonprogram crops. As you know, most of our crops in California are nonprogram crops and we could see that some of these were threatened with overproduction had not the 1985 farm bill been amended by a new bill. We appreciate the willingness of you and other Members of the Congress to pass this new bill and make this much needed modification.

Free trade agreements

Our country advocates free trade. Unfortunately, in many cases, this turns out to be unilateral free trade with minimal to nonexistent duties or other restrictions on incoming agricultural products to the United States. At the same time our agricultural products encounter significant barriers if we export to these same countries. We should advocate fair trade rather than free trade. Under fair trade, products would have the opportunity to move in either direction with identical restrictions.

Bilateral, free trade agreements between the United States and Canada and the United States and Mexico would conceptually qualify as fair trade. As appealing a concept as these are, it does contain inherent problems. First is the problem of superficial equal access. This is similar to the one horse-one rabbit theory. Mexico and Canada would receive free access to a market of 234 million people having a gross national product of over $3,310 billion. In return, to what would the United States receive free access? This question must be seriously considered before the final decision is made.

Second, free access does not address the issue of Government subsidies. Most of California's agricultural commodities do not receive any Government subsidy. It would be difficult if not impossible for one of our agricultural industries to compete against a foreign government. This is also an important question that should be addressed before a final decision is made.

GATT

Agriculture has historically not fared too well in GATT negotiations. Our negotiators seemingly place a low priority on agricultural products. It appears that agriculture is continually offered as the proverbial "sacrificial lamb" to achieve non-agricultural concessions.

What little agriculture appears to gain in the negotiations is usually a paper victory because of the flagrant violations of the GATT rules.

The role of the United States is clear. We must unequivocally take a strong stand at the GATT to protect our rightful position in world trade. We must address the GATT violations and ensure that agriculture maintains a priority status during the negotiations.

United States agriculture can no longer support other industries nor can it compete at a disadvantage in the world market place. If we fail to take a strong stand, American agriculture will face an untenable future.

California export market development program

California has taken positive steps to help our agriculture meet the fiercely competitive and protective world market. Our State legislature, with support from the industry, the Department of Food and Agriculture and the Governor, passed Assembly Bill 1423. This "cooperator market development" legislation became effective on January 1, 1986, and is patterned after the USDA, Foreign Agricultural Service Program.

The California program provides individual firms and commodity groups involved in exporting California agricultural products the opportunity to promote them directly into the foreign marketplace. This is a direct, positive sales promotion effort. AB1423 is the first "cooperator" program instituted by any State. We are delighted with the industry response and enthusiasm shown for this program. We have great expectations that this program in conjunction with all the others will improve our sales in foreign markets.

Conclusion

U.S. agriculture is hurting! California agriculture is hurting! There is no room for complacent, passive postures in today's domestic or foreign trade world.

California must drive hard with renewed creativity to promote and develop markets and to cultivate sales for our fine products. We need to counteract the negatives we face with ingenuity, quality, and guaranteed availability.

We hope that the results of your hearings will be instrumental in helping to create this positive climate.

APPENDIX I

CHANGES OVER SIX YEARS

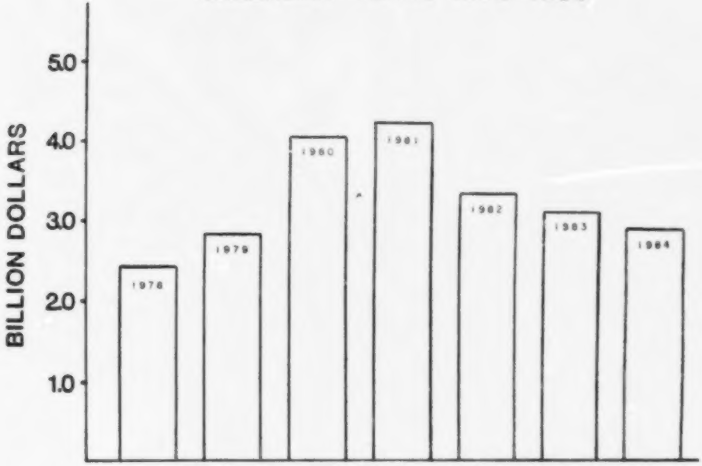
Changes in value of California's exports of selected leading commodities and the total exports over the six-year period 1979-1984 are shown in Table 4. The value in 1984 has returned to within 4 percent of the 1979 level. A wide variation exists between commodities: strawberries and oranges have more than doubled while the 1984 cotton and rice are at their lowest levels in the entire period. The peak for most commodities was in 1981. No adjustments have been made in these values for inflation.

VALUE OF EXPORTED COMMODITIES PRODUCED IN CALIFORNIA, 1979-84

Commodity	1979	1980	1981	1982	1983	1984
	Value in Thousand Dollars					
Cotton Lint	805,180	1,135,559	989,253	897,021	858,969	624,724
Almonds	286,952	429,817	307,324	236,287	243,167	315,473
Grapes	176,6[illegible]7	230,864	260,766	245,504	212,848	195,216
Oranges	106,429	177,094	204,749	194,153	241,732	217,621
Lemons	97,498	93,210	92,044	82,156	95,302	88,267
Wheat	165,110	283,145	315,844	218,242	72,908	115,491
Rice	147,022	318,808	321,440	111,091	150,618	91,811
Cattle & Products	109,012	91,762	86,695	91,004	75,512	99,836
Prunes	55,117	64,861	71,291	71,407	66,805	63,699
Peaches	62,513	75,372	73,986	59,906	53,209	42,303
Walnuts	54,597	82,957	88,503	77,759	48,277	66,799
Cottonseed	38,366	50,633	54,212	47,723	19,642	50,038
Tomatoes	50,521	43,782	50,648	45,169	40,076	36,637
Lettuce	27,246	29,740	36,709	39,379	37,215	40,266
Alfalfa	33,179	42,276	34,162	32,188	48,179	35,372
Dairy Cattle and Products	30,768	42,277	38,905	37,986	46,388	42,418
Dry Beans	24,879	42,093	45,674	36,034	19,878	25,313
Onions	20,901	28,497	42,448	29,754	28,754	44,811
Chickens and Products	15,539	43,801	36,588	24,970	13,701	14,938
Pears	15,483	18,477	19,602	16,864	13,920	10,425
Celery	14,394	11,476	14,418	15,533	22,411	24,647
Flowers and Plants	14,174	13,052	16,081	14,907	17,449	33,353
Strawberries	12,109	16,374	12,953	21,228	28,676	29,818
Grapefruit	9,676	17,821	18,361	17,457	16,982	9,149
Plums	9,311	13,278	14,591	13,181	11,924	22,534
Total	2,800,663	3,997,823	4,198,165	3,311,305	3,053,163	2,905,042

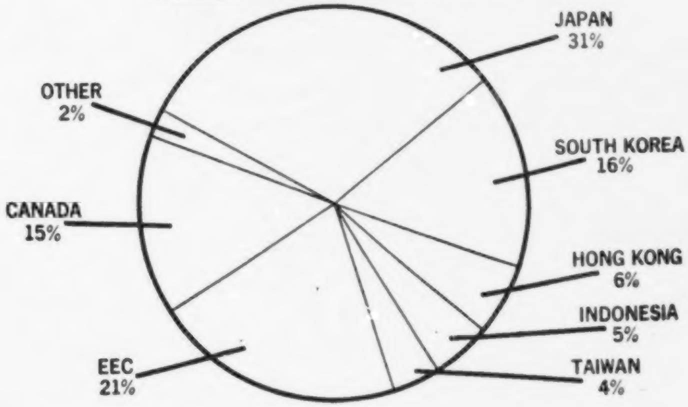
APPENDIX 2

CALIFORNIA'S AGRICULTURAL EXPORTS
CALENDAR YEARS 1978-1984



Source: California Department of Food and Agriculture

CALIFORNIA'S AGRICULTURAL EXPORT MARKETS, VALUE BASIS, CALENDAR YEAR 1984



Source: California Department of Food and Agriculture

STATEMENT OF JEAN-MARI PELTIER, AGRICULTURAL TRADE SPECIALIST, CALIFORNIA STATE WORLD TRADE COMMISSION

Multilateral Trade Negotiations

My name is Jean-Mari Peltier. I am the Agricultural Trade Specialist for the California State World Trade Commission, the State organization charged with expansion of the Golden State's international trade. The Commission is a nonpartisan alliance of business and government leaders who meet regularly to address trade policy and promotion questions facing California's international business community. Members include the Governor, Lt. Governor, the Secretary of State, and 12 individuals from the private sector including two from agriculture.

On behalf of the Commission, I would like to express our appreciation for this opportunity to provide the California perspective for the upcoming round of multilateral trade negotiations. In holding a hearing with the express purpose of consideration of trade provisions, the Senate Agriculture Committee has taken a significant step toward recognizing the fact that American agriculture is highly dependent upon export markets. Our thanks to you, Senator Wilson, for this opportunity.

About one year ago, the California State World Trade Commission (CSWTC) called together an agricultural leadership retreat to discuss trade policy implications of the 1985 farm bill. During the past 12 months, the agricultural trade picture has not improved significantly. In fact, in California, the Nation's leading agricultural export State, exports have dropped from a high of $4.2 billion in 1981 to less than $3 billion today. To further aggravate this situation, imports of products which compete with California's production--from canned fruit to rice--have increased dramatically. Our declining position in international trade has displaced as many as 100,000 California workers and sent reverberations throughout the farm economy.

Against this backdrop, and with the upcoming round of Multilateral Trade Negotiations on the horizon, the CSWTC again called together leaders from industry to discuss issues and strategies to improve agriculture's position in the international arena. The following comments will be a reflection of the views presented at this second leadership retreat. Discussion focused on four major issue areas: international dispute settlement procedures, the Subsidies Code of the General Agreement on Tariffs and Trade (GATT), technical standards, and the trade negotiations process.

Dispute Settlement Procedures

The agricultural community has been frustrated in its attempts to settle international trade disputes under the GATT due to disparate interpretation of Article XVI (the Subsidies Code) and interminable delays under the Section 301 process. A recent U.S. International Trade Commission (ITC) report found that existing dispute settlement mechanisms have not been effective in settling "the most contentious international trade disputes, such as those involving agricultural subsidies." Three major criticisms of the dispute settlement process were identified: "the length of time taken to complete a case, the opportunities for a 'defendent' country to use procedural maneuvers to obstruct the process, and the lack of assurance of compliance with the (GATT) panel findings." The Murphys participants discussed these issues, as well as ones related to growers' rights and documentation requirements.

There has been a lack of timely action in the initiation process, the discovery and data analysis phase, impanelment procedures, and remedy determination. It has been suggested that time requirements under U.S. domestic relief cases should be applied to the international process. In addition, establishment of permanent panels should be explored as a means of streamlining the panel selection process. Another possibility would be to create a select pool of hearing officers from disinterested countries from which panelists could be readily selected. Furthermore, alternates for the three-member panels should be chosen at the time of impanelment to avoid delays, such as those which have occurred when a panel member is unable to serve due to illness. Initiation of actions by the United States have been delayed due to disagreements among members of our own Inter-agency Committee. While the views of various U.S. agencies should not be displaced, there should be commitment at the highest level of government to press for timeliness in such actions.

As previously indicated, adherence to panel decisions and maneuvering on the part of disputants to manipulate the GATT process have raised serious questions about the ability of existing mechanisms to settle agricultural trade disputes. Recent action on citrus, and the resulting retaliation, and counter-retaliation have been painful lessons illustrative of this point. This case showed there is no guarantee of relief to the aggrieved party (in this case, the U.S. citrus industry) when the President makes the decision to retaliate against an industry in the offending country (in this case, pasta from the European Community). Changes should be made in this process to assure relief to the injured industry which was party to the original action. It has also been suggested that the process be taken out of the hands of the President, where it is subject to interagency battles, and moved to the jurisdiction of the U.S. Trade Representative (USTR).

Inconsistent interpretations of growers' rights to bring domestic dispute cases before the ITC have caused uncertainty in the agricultural community. In some cases, the ITC has considered growers of the raw product as part of the affected industry (as in the Florida orange juice concentrate case) and in other cases it did not (as in last year's grape petition). Furthermore, because of the staging of the impact of imports on a given industry, growers will often be hurt before processors. The definition of "industry" in Section 771 of the Tariff Act of 1930 should be expanded to provide standing to growers involved in production of processed agricultural products, provided that the growers allege injury as a result of imports of such products. This definition fully comports with both GATT interpretations and legislative history, which clarify the 301 procedures are designed to provide relief to domestic industries, and are not be be interpreted in a way that would prevent consideration of an industry or part of an industry.

Finally, in domestic relief cases, the agricultural community has had difficulty in complying with the data and documentation requirements of the ITC--requirements that were developed with manufacturing industries in mind. Information on capacity utilization, production declines, inventory build-up, and other trends do not necessarily reflect the prosperity of an agricultural business. Profitability cannot be inferred on a year-to-year basis, particularly in viewing the lead time necessary for development of permanent crops. In addition, gathering of historical information is made more difficult by the scope of many agricultural operations, wherein agricultural producers grow several different types of crops to diversify risk. It is difficult to separate various investments among the alternative crops, since this is not necessary for the operation of their enterprises in the normal course of business. An overhaul of data requirements under domestic dispute cases should be undertaken to assure the agricultural community equal access to such procedures.

Standards

Nontariff trade barriers, often imposed by California's trading partners under the guise of scientific and technical requirements, have been a thorny issue in agricultural trade--particularly for producers of high value horticultural products and value-added agricultural products. Numerous examples of such restrictions were cited at the Murphys meeting, including those imposed by the governments of Japan and the Republic of Korea.

The U.S. Government has agreed that this problems is in need of urgent, high-level attention, and plans are underway to arrange top-level meetings between our foreign trading partners and a U.S. delegation led by Orville Bently, Assistant USDA Secretary for Science and Education. He will be joined by officials of the Environmental Protection Agency and the Food and Drug Administration. It is critical that such meetings take place with top-level Japanese counterparts to secure agreement to remove unjustified barriers to trade in agricultural products.

Murphys articipants also noted that the Secretary of Agriculture should adopt a coordinated approach to technical barriers that incorporates scientific, marketing, and policy considerations. In addition, reviews should be undertaken to document the nature and extent of the use of technical and scientific standards as non-tariff trade barriers against California products. These reviews would compliment an on-going CSWTC study of trade barriers in the Pacific Rim (AB 688 Bronzan). Available avenues to resolving disputes of a technical nature should be explored, including the Technical Standards Committee of the GATT and applicable entities within the Food and Agriculture Organization (FAO). Further, it was noted that the International Horticultural Society will meet in California in the near future. It was suggested that organizers of this meeting be approached to consider the issue of development of technical standards, providing an alternate forum for discussion of concerns.

Finally, it was noted that there should be stepped-up emphasis on research designed to address plant protection and quarantine standards and other technical requirements imposed by U.S. trading partners. Although California interests pressed this point last year, it was not adopted as part of the research title to last year's farm bill. Research to remove technical barriers to trade should be an integral part of market development strategies.

Subsidies

Disparate interpretation of what constitutes a permissible subsidy under the GATT has created tremendous tension between the United States and its major trading partners--particularly the European Community. Last year, California called for "greater international cooperation to reduce or eliminate subsidies". The CSWTC supported provisions in the farm bill to combat the proliferation of subsidies, including a provision directing the USDA to meet subsidized competition in specified markets. The importance of the elimination of such trade distorting foreign practices cannot be over-emphasized. Certainly, within the existing structure, there must be greater clarify of the definition of unacceptable subsidy practices and understanding of what constitutes "unduly enhancing market share." Without clarification of these provisions, the GATT process is in danger of unraveling.

Negotiations

With Multilateral Trade Negotiations clearly on the horizon, the U.S. Department of Agriculture must work in earnest to assure that the needs of American agriculture are a top priority of our U.S. negotiators. Work must be undertaken now to catalog foreign market constraints by commodity and by country. Although California has begun such an analysis, cooperation and assistance by the USDA and agricultural attaches will be necessary to assure accuracy and comprehensiveness.

The U.S. must work now to develop a strategy to extract concessions from targeted countries, whether by offering additional U.S. concessions or by theatening to withdraw existing benefits. We must explore using leverage, such as withdrawal of the injury test under ITC procedures or the elimination of the Generalized System of Preferences to countries refusing the U.S. greater market access. We must be prepared to accept the marketing efforts of these countries in the United States, but be equally prepared to change American agriculture's "pro-trade" stance if we are unable to gain concessions on our behalf. With much attention being dedicated to expanding GATT coverage over trade in services, the agricultural community must remain diligent to assure that concessions for that sector are not paid for by agricultural interests. Careful tacking of corresponding concessions must take place. Should trading partners fail to implement agreed-upon concessions, the U.S. must reserve the right to unilaterally withdraw its concessions.

In a related issue, the enlargement of the European Community to include Spain and Portugal is projected to cause the loss of a $1 billion grain market. Murphys participants noted that U.S. negotiators should seize this opportunity to seek compensation in specialty crops. It was pointed out that when the United Kingdom entered the European Community, discussions of compensation owed the United States were folded into past Multilateral Trade Negotiation discussions. The result was that American interests received no meaningful compensation. Care must be taken to assure that we do not let history repeat itself in this MTN round.

Conclusion

Many challenges and problems continue to face agricultural traders as we move toward the 21st century. Our U.S. negotiators must remain diligent in calling for fair treatment of American agriculture, and our industry must remain diligent to assure that U.S. negotiators understand and address our needs.

STATEMENT OF DAVID L. ZOLLINGER, PRESIDENT, NATIONAL ASSOCIATION OF GROWERS AND PROCESSORS FOR FAIR TRADE

Mr. Chairman, committee members, ladies and gentlemen: My name is Dave Zollinger, and in addition to being the executive vice president/chief negotiator of the California Tomato Growers Association I represent here today, as its president, the National Association of Growers and Processors for Fair Trade. You may remember our United States tomato industry-wide association from its intensive involvement in the United States-Israeli free trade area proposal. It was the processing tomato industry that proved itself so highly import sensitive before the United States International Trade Commission during the national debate regarding U.S.-Isaeli FTA.

We, Mr. Taber and I, appear today before this hearing of the U.S. Senate Agriculture Committee to inform you that the National Association of Growers and Processors for Fair Trade is very much an active and viable factor in matters of international trade which may have an impact on our industry. This most unusual alliance of growers and processors involved in the U.S. processing tomato industry is now stronger than ever before.

Let me take a moment to discuss Exhibit A.

The title of this exhibit is "United States Tariff Rates on Canned Tomatoes and Tomato Products, and Effective Dates". The exhibit presents the basis for our industry's greatest concern regarding the MTN under GATT. That is, that in all negotiations since the Tariff Act of 1930, when tariffs were first established for tomatoes, until the last round of negotiations under GATT, our tariffs have been cut from 50 percent to 13.6 percent to 14.7 percent, depending on the product.

The U.S. processing tomato industry is without an export market, and therefore depends on its domestic market for its near-entire sustenance.

The industry cannot, under any circumstances, accept further tariff reductions as an outcome of GATT negotiations. Putting it another way, U.S. negotiators must not trade off the proven, highly import sensitive processing tomato industry in order to gain something else, for some other industry sector, or for military advantage.

In respect to the proposed free trade agreement with Canada, the Association supports the proposal as it is currently presented. We believe its potential impact will tend to allow a greater degree of U.S. tomato industry market penetration into Canadian markets. However, the industry has concerns, as it still does with respect to the U.S.-Israeli FTA, as to the possibility of subsidized product from the EC, or elsewhere, being passed through the FTA as Canadian grown and processed products.

Portugal and Spain have both been active importers of tomato products during 1985, at market busting prices. In the period of July through September 1985, imports of all canned tomatoes into the U.S. market were up 29.4 percent and tomato paste, for the same period, remained unchanged. In canned tomatoes, producers in Spain, which accounted for nearly 30 percent of all imports, increased shipments by 6.9 percent at prices that were 28 percent lower than in 1984. In tomato paste, Portugal accounted for 40 percent of the imports during the period at prices that were down 27 percent from the same period of the previous year.

Even though these heavy shipments at bankrupting prices may be of great importance to our industry and do, in fact, bring to focus the world class stature of the Portugese and Spanish tomato industries, that is not the issue--the European Community policy regarding the payment of subsidies is the issue!

Our Association is not yet fully informed as to the staging and quota requirements that will be imposed upon the two nations by the EC during the transition period, but preliminary trade announcements concerning their accession lead one to believe that they will be greatly advantaged by their membership in the Community.

Our concerns lie with the dislocations that will occur in the EC tomato market as Portugal and Spain gain market penetration and other non-EC signatory nations are forced out. These ousted trading nations will look to our overburdened domestic market as the outlet of last resort. We believe the result could be terminal for many of our processors' and growers' operations.

Again, the EC subsidy policy is the issue! The EC is now totally self sufficient in processed tomatoes. The original purpose for establishment of the subsidies is now invalid. Yet, the obscenely high EC subsidies continue unabated. Why? For what purpose?

The National Association of Growers and Processors for Fair Trade is appreciative of the opportunity to appear here today. Also, it is our wish to submit additional written testimony at a later date.

EXHIBIT A

UNITED STATES TARIFF RATES ON CANNED TOMATOES AND TOMATO PRODUCTS AND EFFECTIVE DATES

Tomatoes, prepared or preserved in any manner:

Tariff Act of 1930	50%
Trade agreement with Argentina, 11/15/41	25%
GATT: Trade agreement with Italy, 5/30/50	25%
GATT: Trade agreement with Italy, 6/30/56	23.5%
6/30/57	22.5%
6/30/58	21%

Tomato paste and sauce:

GATT: Trade agreement with EEC, 7/1/62	19%
7/1/63	17%
GATT: Trade agreement with EEC, 1/1/68	16%
1/1/69	15.5%
1/1/70	14.5%
1/1/71	14%
1/1/72	13.6%

Canned tomatoes:

GATT: Trade agreement with EEC, 1/1/68	19.5%
1/1/69	18%
1/1/70	17%
1/1/71	15.5%
1/1/72	14.7%

* * *

Tomato juice was included until 1963 in--

Ginger ale, ginger beer, lemonade, soda water and similar beverages containing no alcohol, and beverages containing under 0.5% of alcohol, nspf:

Tariff Act of 1930	15 cents/gallon
Trade agreement with United Kingdom, 1/1/39	10 cents/gallon
GATT: Trade agreement with United Kingdom, 1/1/48	5 cents/gallon
GATT: Trade agreement with Denmark, 7/1/62	3.5 " "
7/1/63	2 cents/gallon

Vegetables juices, including mixed vegetable juices:

GATT: Trade agreement with EEC, 1/1/68	1 cent/gallon

STATEMENT OF LAWRENCE K. TABER, VICE CHAIRMAN, NATIONAL ASSOCIATION OF GROWERS AND PROCESSORS FOR FAIR TRADE

Good morning. I am Larry Taber, and I am appearing here today as Vice Chairman of the National Association of Growers and Processors for Fair Trade. I might add we use the acronym "NAG", and, Mr. Chairman, I believe you will agree it is an appropriate appellation.

The close working relationship processors have developed and maintained with the growers in this coalition illustrates the seriousness with which we view the continued erosion of U.S. market share of processed tomato products to imported tomato products.

I want to take this opportunity, Senator, to again thank you on behalf of the growers and processors for the leadership you have demonstrated and the help you provided us in working out an acceptable solution to the problems presented to our industry last year by the Israel free trade area proposal.

For the record we would like to remind the Committee that the California tomato processing industry is a major component of the total agricultural picture in California. Hundreds of growers provide and approximately 24 companies annually process about 6 million tons of tomatoes which is about half the world's supply, and about 85 percent of the Nation's production of these products.

Although we believe we have the best and most efficient growers and processors in the world, we still feel threatened by the multitude of subsidies and cheap labor rates which are hallmarks of our foreign competition.

A point we would like to emphasize is the enormous production capability for processed tomato products which exists and is growing outside the borders of the United States from such diverse areas as Turkey and Taiwan.

Last year for example no less than 28 countries shipped processed tomato products into the United States (much at market breaking levels). The total of just these imports of canned tomatoes, tomato paste and tomato sauce amounted to 365,013,000 pounds! This tremendous production capacity underscores the need for U.S. Trade Representatives to hold the line on current tomato tariffs in the upcoming GATT negotiations.

In conclusion we wish to compliment Senator Wilson for requesting the General Accounting Office (GAO) to conduct a study of the data and documentation required by the government for challenging unfair agricultural trade practices by other countries.

This is a fundamental issue with our industry and we are pleased that the Senator has focused attention on it. For example, during a recent ITC investigation of a complaint lodged by the processing industry, one company who was asked to provide data to the ITC, spent 282 man hours or over 35 days just to complete the first part of a questionnaire!

NAG member processors indicate that many of the questions asked by the ITC during the course of determining if material injury exists were practically impossible to answer, and were particularly beyond the capability of many small and medium sized companies to make an adequate response.

Again, Senator Wilson, thank you for the opportunity of making these comments.

STATEMENT OF ROBERT HARTZELL, REPRESENTING CALIFORNIA ASSOCIATION OF WINEGRAPE GROWERS

Senator Wilson and members of the Senate Agriculture Committee.

I appreciate the opportunity to appear before your committee. In appearing before you I am representing the members of the California Association of Winegrape Growers who produce about 65 percent of the nonwinery owned grapes crushed for wine in California. I have also been asked by the board of directors of the American Grape Growers Alliance for Fair Trade to speak on their behalf. The Alliance represents grape growers and grape products processors in the States of California, New York, and Washington.

I will address several issues:

1. Problems with the GATT, which need to be resolved.
2. Needed changes in the ITC procedures in order for it to be a useful forum for addressing the problems of agricultural producers who are injured or threatened with injury from dumped or subsidized products.
3. Comments on future bilateral fair trade agreements with Canada.
4. A suggestion for dealing with a reduction in agricultural trade with the E.E.C. as a result of Spain and Portugal becoming a part of the E.E.C.
5. Influence of the 1985 farm bill on the wine and grape industries.

I will briefly discuss each of these topics. I will be pleased to answer any questions and supply backup information and statistics later if you wish.

1. Problems with the GATT, which need to be solved.

I'm sure that others will address this subject in considerable detail. Therefore, I will only comment on the need to make the dispute settlement mechanism work and relief to the aggrieved party filing a 301 action.

As a member of the Agricultural Policy Advisory Committee (APAC) to Secretary of Agriculture Richard Lyng and U.S. Trade Ambassador Yeutter, I have experienced first hand the enormous frustrations all responsible for resolving trade disputes feel in the lack of effectiveness in the current dispute settlement mechanism. The overwhelming attitude I hear and feel is either redesign it so it works, or the future existence of the GATT is in jeopardy. I'm quite certain that much of the protectionist sentiment currently prevailing in Washington is the result of frustration resulting from disputes that are either never resolved or resolved only after an unreasonably long, tedious, and costly process.

I understand that the U.S. Trade Representative is considering calling for several key changes regarding the dispute settlement process.

1. A mandated mediating role for the Director General of the GATT;

2. Development of an alternative process of binding arbitration;

3. Building into the dispute settlement process binding time tables;

4. Use of non-government experts as panelists;

5. Reaffirmation by participating parties to abide by panel decisions.

I can support these changes. They will fit well with discussion on this subject at Murphys II as reported by Jean-Mari Peltier.

In addition, recent action on citrus and the resulting retaliation have been painful lessons. There is no guarantee of relief to the aggrieved party. Change should be made in the process to assure relief to the injured party who was party to the original action.

2. Needed changes in the I.T.C. procedures in order for it to be a useful form for addressing growers who are injured or threatened with injury from dumped or subsidized products.

Agricultural cases brought before the U.S. International Trade Commission under the countervailing duty and antidumping laws have experienced a significantly lower success rate than cases involving other commodity groups such as chemicals, machinery and textiles. A review of these cases supports the conclusion that petitioning agricultural producers, which are suffering material injury, have been precluded from gaining relief due to the lack of finding of material injury by the ITC.

A 10-year study shows that only 20 percent of agricultural trade cases have been successful. The 9 percent success rate of agricultural cases brought during fiscal year 1982-1984 is even lower than the success rate for agricultural cases during the last ten years. In comparison of these low success rates, 39 percent of all cases brought in fiscal years 1982, 1983, and 1984 were successful. The success rate for agricultural cases is also substantially lower than the 62 percent success rate for cases involving energy and chemical commodities and the 45 percent success rate for cases involving machinery and equipment.

I want to commend you, Senator Wilson, for the initiative you and Committee Chairman Jesse Helms have taken in requesting the Comptroller General to make recommendations for restructuring current requirements if they are found to be inappropriate for accurately reflecting the realities of agriculture.

I would, however, like to suggest the addition of a couple of points to your request to the Comptroller General. The rule that it must be producers of a "like product" needs to be changed and probably in the GATT rules. Currently, growers of products which are processed, are unable to obtain relief through an ITC hearing if they are being injured or threatened with injury from the imported processed product. This is particularly important since growers of the agricultural product are frequently injured before the processor--case-in-point--winegrape growers, tomato growers.

Also, a better understanding of what constitutes a subsidy needs to be developed. Just because E.E.C. wines coming to the U.S. do not receive an export subsidy does not mean that other subsidies, such as the EEC Distillation Program, are not giving them a competitive advantage over U.S. producers.

Finally, in the recent American Grape Growers Alliance for Fair Trade ITC case against subsidized ordinary table wine from West

Germany, France, and Italy, the ITC only went back three years. Major inroads into the U.S. wine market were made by those countries in the late 1970's and early 1980's. The ITC, however, would not consider that information -- a major cause of grower injury. ITC should investigate all events leading up to the alleged injury.

3. Comments on Future Bilateral Free Trade Agreements with Canada.

Frankly, I don't find much support among California tree fruit, vine, nut and vegetable crops for such an agreement. From a wine and grape standpoint, an agreement should at minimum require that Canada stop subsidizing their winegrape growers in Ontario and British Columbia. The subsidies are financed by a discriminatory tax on imported wine.

In addition, sole control of wine in Canada is vested in the Provincial Liquor Control Board. The Central Canadian Government can't even touch the system. It would be in the best interest of California winegrape growers if the absolute Provincial control on wine was eliminated or reduced and definitely that the differential markup on imported wine be eliminated so that all wines, regardless of origin, can compete equally.

4. A Suggestion for Dealing with a Reduction in Agricultural Trade to the EEC as a Result of Spain and Portugal Becoming a Part of the EEC.

My suggestion is very straight forward. If compensation or retaliation is in order, the EEC fails to compensate fairly -- retaliate with wine. I feel such a move would be welcomed by California growers and vintners. Vintners who are also importers and distillers might not like such an action, however.

5. Influence of the 1985 Farm Bill on the Wine and Grape Industries.

Speaking on behalf of raisin producers and processors, I know that they are looking forward to making full use of export development funds provided in the new legislation. We thank you, Senator, for helping secure these funds. We winegrape growers also appreciate these funds going to help increase raisin exports. One painful fact all grape growers have learned is that even though wine, raisins and fresh grapes for table use don't look much alike, what happens to the supply and demand for each has a dramatic effect on the other categories.

I appreciate the opportunity to appear here today and will be glad to answer any questions.

STATEMENT OF MARK AFFLECK, VICE PRESIDENT, INDUSTRY AFFAIRS, CALIFORNIA AVOCADO COMMISSION

Good morning, Senator Wilson. I am Mark Affleck, vice president of industry affairs for the California Avocado Commission. The Commission is organized under the laws of the State of California and represents 8,500 California avocado growers.

You are to be applauded for the leadership and initiative you have shown in calling for testimony on the topical issues being addressed today. For the California Avocado Commission, this free trade area panel holds the most interest, as the consequences of such an arrangement with Mexico would quite literally devastate our industry.

Let me begin by touching on some general concerns relative to preferential trading arrangements, to be followed by more specific comments regarding the potential adverse effects of a U.S./Mexican free trade area on our industry.

Senator, our expectations for future preferential trade arrangements can only be based on what we have seen transpire in the past. As you well know, the experiences of the California avocado industry in this regard have not been favorable.

You may recall that we fought vigorously to get avocados exempted from the U.S./Israeli free trade area on the basis that Israel, the world's leading avocado exporter, would direct its subsidized avocado production to the United States, placing severe strains on the already stressed U.S. industry. We were unsuccessful, as were all other import-sensitive agricultural industries, in obtaining the exemption. The U.S. duty on avocados will accordingly be phased out over ten years. As the phaseout occurs, the projected influx of Israeli avocados in the U.S. market will undoubtedly come to pass.

Although not a free trade area, another preferential trading arrangement that has intensified market pressures on our industry is the Caribbean Basin Initiative. That program alone has caused U.S. imports of avocados to increase from less than 1.5 million pounds in 1982, prior to the CBI, to 3.5 million pounds in 1984. This influx occurred at a time when our industry was attempting to deal with its own crisis brought on by excess production and severely depressed prices.

These past experiences underscore the inadequate recognition given under preferential trading arrangements to the import-sensitivity of the U.S. avocado industry and other agricultural sectors. It is feared that future trading arrangements will fare no better.

Compounding our fears is the macroeconomic concern that preferential trade arrangements, once initiated, have a tendency to proliferate, particularly with developing nations that want free access, but cannot reciprocate.

There are a wealth of historical examples demonstrating this phenomenon. The abundance of preferential trading arrangements between the EEC and a number of developing Mediterranean countries provides the best.

At home, we are beginning to see this same multiplying principle at work. Our Government has already begun its second free trade area exercise in three short years. It is not the free trade area with Canada in and of itself that concerns us, as Canada is on an economic par with the United States and is not generally viewed as a threat to American agriculture. Rather, the concern arises over what is likely to follow. We know that a free trade area with Mexico is now being widely discussed. Some of our South American neighbors, including Brazil and Argentina, may be next in line. These nations--Mexico, Brazil, Argentina, and other developing countries--all have fully developed agricultural sectors for which they will seek free access; yet, they will resist undoubtedly with success, opening their own borders on balance of payments grounds. The United States simply cannot engage in one-way free trade arrangements and expect its domestic avocado producers or any other agricultural industry to survive.

Of all the developing countries that have sought, or may wish to seek, a free trade area with the United States, Mexico poses perhaps the greatest threat of all to the California avocado industry. That country is the world's leading producer of avocados. Although access the the United States market has been closed since 1914, when the United States first imposed a seed weevil quarantine on fresh avocados, Mexico has targeted the United States as a country with sizable market potential and has repeatedly requested that the quarantine be lifted.

On several occasions in the recent past, USDA officials have examined Mexican avocado growers and have found no evidence that the seed weevil pest has been eradicated. It accordingly has been determined that the current quarantine remains essential for preventing the spread of the seed weevil within the United States and should not be relaxed.

Under no circumstances--free trade area or otherwise--should the integrity of this quarantine be jeopardized. To do so would risk contamination of our entire U.S. production. It is also quite evident that a relaxation of this restriction would subject our industry to an onslaught of additional avocado imports that we are ill-suited to accommodate.

It is accordingly urged that Senate Agriculture Committee exercise its leadership to discourage any effort, be it legislative or executive, to get such a free trade area underway. It is understood that Senator Gramm, Senate Chairman of the U.S./Mexico Interparliamentary Council, is contemplating introducing authorizing legislation for a free trade area with Mexico by May of this year. He is reportedly promoting such an arrangement in the interest of converting the entire North American continent into a free trade region. This proposal is not in the interest of California's 8,500 avocado growers and must be blocked before it takes hold.

As a closing comment, I would draw the Senator's attention to the fact that many of the concerns I have expressed this morning are equally applicable to the upcoming bilateral negotiations with Mexico in connection with its accession to the GATT. Although wholly unjustified by law or practice, Mexico has sought to open up these negotiations into a "two-way" trade concession exercise--otherwise translated as one-way trade liberalization by the United States. For reasons already stated, your personal intervention is requested to ensure that U.S. negotiators do not bow to this request.

That concludes my remarks. If there are any questions, I would be happy to try to answer them at this time.

STATEMENT OF WILLIAM DENNISON, REPRESENTING THE COALITION FOR FAIR LUMBER IMPORTS

The Coalition for Fair Lumber Imports thanks the Senate Agriculture Committee for the opportunity to comment on the proposed U.S.-Canadian Free Trade Negotiation. The Coalition is comprised of all the major U.S. softwood lumber manufacturers associations, These associations are the National Forest Products

Association, The Northeastern Lumber Manufacturers Association, the Northwest Independent Forest Manufacturers Association, the Western Wood Products Association, the Southern Forest Products Association, the Western Forest Industries Association, and the Southeastern Lumber Manufacturers Association. The Coalition represents more than 70 percent of U.S. lumber production.

On October 1, 1985, ten members of the Finance Committee urged Ambassador Yeutter to "seek an early resolution of the softwood lumber trade issue" in order to facilitate consideration of a free trade agreement with Canada. They said that "any free trading agreement must be built on a foundation of fair trading practices." On November 25, four members of the Committee, including its Chairman, contacted Yeutter requesting the administration to "immediately undertake negotiations at the highest levels with Canada to eliminate the distorting impact of Canadian pricing practices involving softwood lumber." These negotiations were initiated, and three separate talks have taken place, the last in Washington, D.C., on March 12.

The Canadian Government has initiated a request for negotiations for a free trade agreement between the United States and Canada. On March 26, the Senate Finance Committee announced hearings on the U.S.-Canada Free Trade Agreement. In announcing these hearings, Chairman Packwood stated, "Under the Trade Act of 1974, the Finance Committee is responsible for authorizing the initiation of bilateral trade negotiations leading to any trade agreement which reduces or eliminates U.S. import duties. The President's historic proposal to enter into such negotiations with Canada, our largest trading partner, raises a host of important and difficult issues which the Committee must consider."

To date there is no indication that the Canadians are willing to eliminate the benefit they receive from their timber subsidies. For this reason we believe the Committee on Ways and Means should withhold negotiating authority for a free trade agreement with Canada in light of their unwillingness to make significant progress towards resolving the lumber issue. The U.S. forest products industry cannot wait indefinitely for relief for Canada's unfair lumber trade.

The U.S. lumber industry by any measure should be enjoying good times. The consumption of softwood lumber was at record levels in both 1984 and 1985 and should set another record in 1986. This strong consumption has been fueled by a strong market of about 1.75 million housing starts in both 1984 and 1985 and by record usage of softwood lumber in other key areas such as a home repair and remodeling. Yet despite this record consumption, the U.S. lumber industry faces disaster. The U.S. lost a net 629 softwood mills between 1977 and 1984, and mill employment dropped by 25%. The industry had pre-tax losses of over $300 million in 1984 and wrote off over $600 million in assets.

There are many reasons for the problems that the U.S. industry faces, but the primary reason is a flood of subsidized Canadian lumber into the United States.

Both Canadian and U.S. lumber manufacturers recognize that the source of the industry's problems is severe over-production and the resulting recession-level prices for lumber. The source of the over-production is Canada. Canadian provinces, which own about 95% of Canadian timber, provide timber to Canadian producers at a price that is far below U.S. prices and far below fair market value.

The problem with Canadian administered timber pricing is that it is noncompetitive. At a recent meeting at Hayden Lake, Idaho, sponsored by the Western States Legislative Forestry Task Force, representatives of the B.C. Ministry of Forests and the U.S. Forest Service were asked to appraise the same stand of timber. The timber stand was chosen by the B.C. Ministry of Forests from an actual B.C. timber sale. The B.C. official said that his appraisal showed that the stand had a negative value, so the timber was sold in Canada for a nominal fee, about $4.50 per thousand board feet. The U.S. appraiser set a minimum bid on the timber of about $14.50 per thousand board feet, but in our competitive market we would have had to bid $41.00 per thousand to purchase that timber.

The same is true across the North American continent. Government timber in Quebec costs a fraction of timber in the competitive Maine market. The noncompetitive price on the B.C. Coast is a fraction of the market cost in Washington and Oregon.

There is no market justification for this. The timber is the same timber. The terrain is the same. The truth of the matter is, as the Ontario Royal Commission of the Northern Environment said, Canadian lumber firms do not pay a fair market value for government timber. The only way fair market value can truly be determined is by what a willing buyer will pay a willing seller in a free market.

Canadian provinces virtually give away timber to promote what the Ombudsman of British Columbia called "short term" employment. By giving timber to lumber companies at a fraction of fair market value, the provinces have encouraged production and employment. The problem is that when Canada promotes its employment, it also promotes production that would not otherwise be justified by the market. Real market-oriented growth in the United States is prevented. In effect, when Canada exports its growing production of subsidized lumber to the United States, it also exports its unemployment.

In 1985, Canada's production was running 75% above historic levels (1970-1975). U.S. production in 1985 was only 8% above historic levels. Canada's share of the U.S. market has grown from an average of 20.7% from 1970-75 to 33.5% in 1985. While the U.S. has lost 629 mills between 1977 and 1984, Canada added a net 85 mills. The primary cause for the dislocation in the U.S. lumber industry and market is that the provinces provide Canadian firms with timber at far less than a competitive, fair value. The U.S. lumber industry can compete against any lumber company paying a fair price for its raw materials, but it cannot compete against Canadian provinces bent on maintaining Canadian production even if they have to pay to have their trees cut down.

The Canadian lumber industry says that the U.S. needs its timber and that a soft, lightweight grade of construction lumber, like Canadian Spruce-Pine-Fir, is preferred by builders to the heavier U.S. Southern Yellow Pine. The fact is that the U.S. industry could easily supply the market for lightweight construction lumber if Canada dropped back to its historic share of about 20 percent. As for the so-called species preference for Canadian lumber, the fact is that the Canadian Spruce-Pine-Fir is virtually identical to the Western U.S. Hem-Fir, Douglas Fir, and Spruce-Pine-Fir that the Canadians have displaced from eastern, southern, and midwestern markets.

The Canadians claim that the high value of the dollar is the primary cause of increased Canadian penetration into the U.S. market. The fact is that increased Canadian costs and a much higher inflation rate have largely eliminated the cost advantage that the Canadians would otherwise have from the high value of the dollar. The Canadians ignore the real value of the dollar. In fact, a recent economic study of the effect of the exchange rates on Canada-U.S. lumber trade performed by Professor Adams of the Center for International Trade in Forest Products and Professor McCarl of the Texas A&M University Department of Agricultural Economics, shows that the primary factor underlying the growth in Canadian market share is not attributable to the exchange rate. That suggests that of the phenomenal increase in Canadian imports is due to subsidies. Once again, eliminate the effect of the Canadian subsidies and we will compete favorably, whatever the exchange rate.

For the past several weeks the U.S. dollar has weakened greatly against all of the world's major currencies with the noticeable exception of the Canadian dollar. Because the Canadian economy continues to be so weak, their currency has fallen as much or more than ours during this period. Instead of some relief from a falling U.S. dollar, the U.S. industry continues to pay the price of unemployed woodworkers, wage and benefits cuts, and fear of loss of jobs, in this instance because the Canadians do not have their economic house in order. One must ask if it is fair to ask our employees to pay this price for the ineptness of a foreign government that continues to subsidize its producers.

The Canadians claim that they are more productive than U.S. lumber workers, but a December 1985 study of the U.S. International Trade Commission showed that when Canadian and U.S. lumber workers make the same products, productivity is approximately equal. Furthermore, U.S. wage rates for softwood lumber workers are significantly lower than Canadian wage rates.

The Canadians also claim that any U.S. action which would stop the Canadian timber subsidies would drastically increase the costs of U.S. housing and throw thousands of Americans out of jobs. The study that the Canadians relied upon, however, has been proven to be incorrect. A study by the Congressional Budget office showed that a duty on Canadian lumber would only increase the cost of the average U.S. home by $300, pennies per month amortized over the life of the mortgage. In fact, the CBO directly and harshly criticized the study relied upon by the Canadians as being based on faulty assumptions.

The Canadians are capturing more and more of the U.S. lumber market from beleagured U.S. producers, but until the Canadian subsidies are eliminated, we cannot compete on fair terms. The Canadians have built up over a $2 billion trade surplus with the United States. The U.S. lumber industry is only asking to be given a fair opportunity to compete on the same terms as the Canadians and we believe that we can, in the process, eliminate part of the U.S. trade deficit.

The Canadians believe that the lumber issue should be folded into the overall negotiations for a free trade agreement. This is simply a stalling tactic on the Canadians part. They want to continue to flood our market with subsidized lumber while our two countries spend two years or more negotiating an agreement. The U.S. industry cannot wait this long for relief from subsidized Canadian lumber.

We understand that as part of a free trade agreement, Canada is seeking total exemption for U.S. countervailing duty law. This law is designed to protect U.S. domestic industries from unfair subsidies provided by foreign governments. The Coalition for Fair Lumber Imports not only supports maintenance of existing countervailing duty law, but seeks to strengthen the statute through adoption of Gibbons Bill (H.R. 2451). This bill would define the provision of a natural resource at less than fair market value as a subsidy.

The U.S. lumber industry, and the communities and families that depend on it, are asking that they be given an opportunity to compete fairly against Canadian producers. We cannot continue to compete against the Canadian provinces. It is therefore important that negotiations for a free trade agreement be preceded by significant progress towards a resolution of the Canadian lumber import dispute.

STATEMENT OF RONALD A. SCHULER, PRESIDENT, CALIFORNIA CANNING PEACH ASSOCIATION AND MANAGER, CALIFORNIA FREESTONE PEACH ASSOCIATION

I am Ronald A. Schuler, president of the California Canning Peach Association and manager of the California Freestone Peach Association. Both are grower bargaining and marketing cooperatives here in California.

On behalf of the membership of these two organizations, I wish to thank you and the members of your staff for taking the time out of very busy schedules to hold these hearings concerning trade matters impacting on California agriculture.

Trade is of major economic importance to the number one industry of this state. A recent report compiled by Dr. Tim Wallace, University of California Extension Service and a past Director of Food and Agriculture, has indicated that during the years 1980 to 1984 the decline in the farm gate value of crops grown for export in California was approximately $1 billion and that an additional $2.4 billion worth of gross economic activity was lost within the State's non-farm economy. These figures reflect a decline in the State's economic activities during this four year period of $3.4 billion associated with our export losses and have resulted in the loss of 100,000 full-time equivalent jobs. These numbers very clearly reflect the overall importance of trade to our economy.

I would like to explicitly address the E.E.C. as a market for canned cling peaches and fruit cocktail. When I say as a market, it once was a significant export market for California producers. it is not today. During the seventies, our industry exported to the E.E.C., principally Germany, well over a million cases of cling peaches annually. (A basic case is 24 #2 1/2 or 29 oz. cans) Since 1980 we have experienced a rapid decline. In fact, during the last marketing year, 1984-1985 California producers sold a total of only 7,437 cases of peaches for an approximate value of $139,000 and 16,343 cases of fruit cocktail valued at $329,[illegible] to the E.E.C. These numbers are a stark contrast to our industry's position in 1980-81 when we sold 542,000 cases of cling peaches valued at $8,296,000 and 452,000 cases of fruit cocktail valued at $8,708,000. The combined sales figures result in a net decline of $16 million during this four year period. During this time period we have seen Greece and Italy as part of the community meet not only the needs of the community but have expanded their shipments to other markets competing with us in Canada, Japan and even in our own U.S. market.

You and your staff were very helpful in the support that you gave to us the canned fruit industry and to Ambassador Yeutter in bringing forth a successful resolution to the GATT 301 case our industry had struggled with against the E.E.C. since 1981. The resolution of that case last Novemeber calls for a reduction in the E.E.C. processing subsidy of 25 percent for the 1986 season to a complete elimination by 1987.

A Greek canner representative during a recent visit to California stated that the Greek Government had informed them that the processing subsidy would not be continued as a result of the decision between the E.E.C. and the United States. With the settlement behind us, we now must ask your assistance and the assistance of other members of Congress to assure that this bilateral agreement reached between the United States and the E.E.C. is adhered to by the European Community. We want to make sure that the E.E.C. lives up to its commitment to reduce the processing subsidy and not substitute another unfair trade practice to unfairly compete with our California producers. With Spain and Portugal now as part of the community it is even more important that the E.E.C. lives up to their commitment.

A recent report by the USDA Foreign Agricultural Service in Madrid, Spain says that the U.S. continues to be the main destination for Spanish exports of canned peaches. Under terms of Spain's accession to the E.E.C. the granting of E.E.C. production aid to Spain for canned peaches in syrup will be limited to 80,000 tons of finished product expressed in net weight during the first four years following accession. They go on to say, alignment of production aid for canned peaches in Spain with that of the E.E.C. 10 will take seven years. We see this as a production aid on all of Spain's existing acreage and are not sure just what this means. Senator Wilson we ask you to ask our Government representatives in Europe to make sure that we the peach growers have not been party to an agreement that is now going to be circumvented with production aids or other E.E.C. programs that still result in unfair trade practices and reduce our ability to compete in our traditional exports markets. Certain countries in the E.E.C. currently have tremendous production capabilities and they are in need of additional markets, which can only be expressed as a major concern to California specialty crops.

We know that we are the most efficient producers in the world. No one can match us in our yield per acre. I doubt if anyone can touch us in cases packed per ton of produce delivered. Unfortunately, the other countries have cheaper labor. (My Greek friend indicated that they pay between $4.00 and $8.00 per day for cannery labor and for field labor.) The world sugar price is at 4 cents a pound and our canners are paying 20 cents per pound. Most foreign production has Government subsidies of one form or another. In addition, we have health and safety requirements which result in higher costs for producers and make our canners less competitive. I might add here that we currently have legislation in the California Legislature (passed by the Assembly Agriculture Committee unanimously I might add) calling for certification that imported food purchased by public institutions including schools have met the same health and safety requirements that California farmers and processors must adhere to. Legislation along these lines (Safety and Health standards, including use of pesticides) should be enacted throughout the country and we ask your support in this effort.

On the export side, last year our total exports fell to only 500,000 cases--a dramatic decline over what we have been selling in past years. Your legislative mandate giving export promotion assistance of $110,000,000 for three years to include those commodities that have had successful or pending 301 cases or have been involved with retaliatory action is very helpful to California specialty crops. We asked for and have received approval to use $2 1/2 million for promotion of canned peaches and canned fruit cocktail in the Japanese and Taiwanese markets. With that assistance and additional growers assistance, concessions were made on price and we have increased sales by 300,000 cases just in the next three months to those two countries and overall sales to Japan from 113,000 cases in 1984-85 to over 400,000 cases this year. It is important that the monies in the next two years be available in a timely manner as with this help we can compete against the Greeks and Spaniards not only in the Far East but Canada where we also have lost badly. In 1980-81 we sold 988,000 cases of fruit cocktail. The combined figure of 1.8 million cases just five years ago has dwindled to barely 400,000 (200,000 peaches, 200,000 fruit cocktail) this marketing year. Both Japan and Canada are 1 million case markets for cling peaches and with promotion export assistance and our efficiency we hope to regain those markets. Your help is appreciated.

In conclusion let me say that today growers owning 2,800 acres of peaches do not have contracts, this acreage will produce over 45,000 tons which, if canned, would equate to the imports that have penetrated the U.S. market. These growers thank you for your help as your export assistance may be their only chance to sell their peaches in 1986.

Senator Wilson, we have outlined some of the problems we face. We thank you for taking the time to hear these problems and we thank you for being responsive to California agriculture and specifically the specialty crops which collectively are a large segment of California and U.S. agriculture.

STATEMENT OF STEVEN W. EASTER, VICE PRESIDENT/SECRETARY, MEMBER AND GOVERNMENT RELATIONS, CALIFORNIA ALMOND GROWERS EXCHANGE

Thank you for this opportunity to address the issues in international agricultural trade which are of concern to California Almond Growers Exchange.

The Exchange is an agricultural cooperative owned by nearly 75 percent of California's almond growers. We handle approximately 60 percent of the State's crop, marketing Blue Diamond almonds throughout the U.S. and exporting to 88 foreign countries.

Over 60 percent of the California almond crop is exported. Almonds are California's leading food export and are valued as the seventh largest U.S. food export. Clearly, our industry is keenly aware of and concerned about international trade issues.

International trade issues have received increased visibility recently. Concern expressed by you, Senator Wilson, and members of this committee has been important. It is this type of attention which has made possible a coordinated trade policy which is beginning to lead the United States out of a debilitating trade deficit. Your ongoing support along with the assistance of the current Administration, led by individuals such as U.S. Trade Representative Ambassador Clayton Yeutter and Secretary of Agriculture Richard Lyng, will make it possible for critical agricultural trade issues to continue to be effectively addressed. Two such issues which remain primary concerns of the almond industry are the value of the dollar and the existence of trade barriers which unfairly restrict U.S. exports.

The overvalued dollar has had a major impact on all U.S. industries which focus on export markets, and the almond industry has by no means been exempt. Prior to government intervention in the currency market, the almond industry was experiencing considerable loss of revenue. In the European Economic Community (our largest export market) we suffered a major loss of trade. In 1984 our German customers were paying 23 percent more for almonds which cost 31 percent less than they did in 1980, and the situation worsened in 1985. The severe impact on grower return continues to be felt. It is estimated that industry-wide grower return for the 1985 crop will have fallen by some 50 percent from 1979 levels.

Fortunately, the Administration is coming to grips with the problem of the overvalued dollar. Apparently recognizing the far-reaching and devastating effect that the currency imbalance was having on U.S. industry, our Government took steps to moderate the value of the dollar. The realignment of fiscal and monetary policy which led to intervention in the currency market has been extremely important to the almond industry. We have definitely seen the impact over the last few months. A weakened dollar has meant that improving prices have not had as large an impact as would otherwise have been felt by our large European customers, and market expansion continues unhindered. Meanwhile, the price earned for the grower continues to climb. This could not come at a more crucial time for our growers.

It is extremely important that government policymakers continue to pursue the goal of achieving a reasonably valued dollar. Attention to currency markets coupled with continued focus on budget deficit reduction are central to successful achievement of this goal.

We hope that the entire country will recognize the importance of deficit reduction to international trade. We trust that all will willingly participate in the sacrifices necessary for achievement of this goal. As we seek to return the dollar to a more reasonable value through budget deficit reduction and attention to currency markets, we must not allow this objective to be traded-off in favor of other goals or interests.

Equitable currency exchange rates in our export markets will create an environment more conducive to international agricultural trade. However, U.S. exports of agricultural products will remain stifled as long as our trading partners continue to maintain the substantial barriers to trade which now exist. A document outlining the trade barriers which currently restrict U.S. almond exports to our most promising markets is attached to this testimony. You will note that unfair trade barriers are limiting almond exports to just a fraction of the market potential in India, Korea, Taiwan, Indonesia, Thailand and many other countries. Almond imports are virtually prohibited by Egypt, the Philippines, Argentina, Venezuela and others.

The United States is the most efficient and productive agricultural nation the world has ever known. We must relentlessly seek to achieve a trading environment for our products which is unencumbered by unfair advantages derived from trade barriers and currency imbalances. It is only when issues such as an overvalued dollar and the existence of trade barriers are dealt with that the United States can regain its former prominence in the area of international agricultural trade. Through you continued support and with leadership from the Administration, we are hopeful that this goal can be achieved.

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[The following material was furnished by Mr. Easter:]

TRADE BARIERS RESTRICT U.S. ALMOND EXPORTS

There is tremendous potential for expansion of U.S. almond exports. Almonds, grown exclusively in California, have long contributed to the state's economy as California's leading food export. Now with almond production that has increased as much as threefold over the last decade, it is critical that additional market potential be developed. A cooperative effort between industry and government needs to be continued in order to effectively open and expand new and existing markets for almonds. Such a cooperative effort has proved extremely effective in developing the Japanese market for California almonds. It continues to be among our fastest growing markets and in most years has been the leader in expansion of almond consumption. A similar potential exists in markets such as Korea, Taiwan, India, Egypt and many others. However, in most cases development is hindered by very substantial trade barriers, as outlined in the following information. It is essential that every effort be made by the United States government to eliminate these trade barriers and to foster trade in almonds with these countries. Few of them are producing countries and all are major potential consumers.

ARGENTINA

The government of Argentina established an official policy forbidding the importation of almonds in January, 1984 by Decree 319. The government allows a small quantity of almonds to be licensed in spite of the decree, but even so, licenses are very difficult to obtain and hard currency is quite expensive. An excessive tariff of 60 percent also exists. As a result of these trade barriers, shipment of U.S. almonds during the 1984 bumper-crop year were only 30 percent of 1977-81 levels.

BRAZIL

Due to unfair trade practices, U.S. almond exports to Brazil are severely restricted. The restriction is primarily implemented through import licensing, though an excessively high import duty is also imposed.

Import Licensing.--Licenses are only available two times a year for a period of two to three weeks and are very difficult to obtain. Licenses are issued by the Foreign Trade Office of the Bank of Brazil (CACEX).

CACEX regulations specify that the importer may pay cash for the first U.S. $100,000 worth of the commodity but must obtain 180-day bank financing for the remainder of the product. High interest rates as well as current economic uncertainties often make this condition undesirable.

An additional restriction is imposed on imports by the levying of a "Tax on Financial Operations" which is a 25 percent surcharge on foreign exchange for currency to import goods.

Tariff.--A 55 percent tariff (based on the FOB value) is levied against both inshell and shelled almonds. This rate is excessive, particularly since the United States provides duty-free access for like products from Brazil.

It is estimated that one million pounds of almond exports are forfeited annually due to Brazil's unfair trade practices. Brazil has a positive balance of trade in tree nut's (none of which are almonds), with extensive U.S. imports of Brazil nuts and cashews. Even so, Brazil continues to restrict U.S. almond imports. Our government must press for an end to this unfair treatment.

EGYPT

Import Licensing.--It was recently announced that no private sector import licenses will be issued this year for almonds. This extreme position is the culmination of a pattern of increasingly restrictive unfair trade practices on the part of the Egyptian Government, impacting an estimated 6 million pounds of potential almond exports.

Our U.S. Government must not tolerate this situation and should insist that Egypt immediately establish Open General Licensing for almonds. To settle for less would be of little benefit to U.S. industry. In the past when the Government of Egypt has claimed to make licenses available on a restricted basis, the practical application of the license scheme still had the effect of virtually excluding almonds. For example, in recent years the Egyptian Government has claimed to make licenses available for shipment during the religious Ramadan period. In actual practice, the licenses were not effectively issued until a date about two weeks before Ramadan, with the requirement that goods should arrive before the end of Ramadan. The life of the license would thus be limited to about 30 days. Transit time alone amounts to 37-45 days. Including the time it takes to obtain a Letter of Credit, a period of 54-60 days ordinarily elapses before an almond shipment can be in an Egyptian port.

The situation was compounded in 1985 when only five million dollars of hard currency was allocated for dried fruit licenses, a significant reduction from the 40 million dollars which was allocated the year before.

Now U.S. almonds are being totally excluded from this important market. This unfair trade practice cannot be tolerated.

INDIA

Almond exports to India have been severely restricted by high tariffs and import licensing.

Tariffs.--At 56 rupees per kilogram, India has the highest tariff in the world on almonds. The 1985-86 ad valorem equivalent of this shelled almond tariff is a prohibitive 219 percent. The inshell almond tariff is 28 rupees per kilogram, which translates to an ad valorem equivalent of 121 percent. These tariffs deny equitable and reasonable access, particularly for shelled almonds.

Import Licensing.--In 1981 the Government of India discontinued Open General Licensing and placed dried fruit and nuts on a list of restricted imports. At that point only previous importers could apply for a license, and then only for a quantity valued at not more than 25 percent of the CIF value of that importer's highest level of imports in any one year during the period 1972-73 to 1982-83. What is effectively a quota was reduced even further in April of 1985 when the 25 percent limit was lowered to 20 percent.

The Indian government is quick to say that it must conserve foreign exchange, and therefore must restrict the importation of products they classify as luxury items. This classification is arbitrary, for other products which are true luxury items such as cloves and cinnamon are imported under Open General Licensing. Almonds would not be a luxury item but for extreme price inflation which results from the unfair import policy. In the absence of trade barriers, almonds would be at the same price level as powdered eggs, a staple in the poor man's diet.

Outrageous consumer prices which may exceed $11.00 per pound are due to the tariffs and also to costs which are imposed by the licensing scheme. The high cost of import licenses is further inflated by the practice of small importers selling their permits to larger importers. Large importers not only add the premium paid for the permit to the cost of the almonds but with their market control can then raise the price even further.

Given free market conditions, importers estimate the potential market for U.S. almond exports to India to be 20-25 million pounds. However, due to India's extremely restrictive import policy, shipments for the 1985-86 crop year totalled just 5.9 million pounds. India perpetuates its restrictive policy in spite of the fact that the trade balance favors India and the governments of India and the United States have expressed a desire to remove all trade barriers that may exist to hinder trade between the two countries.

INDONESIA

The market for almonds in Indonesia shows tremendous potential but due to unreasonable restrictions and tariffs, annual trade of up to two million pounds is being forfeited.

Import Licensing.--No almonds are allowed to be exported to Indonesia except through the government trading companies P.T. Kerta Niaga and P.T. Tjipta Niaga and import licenses are not freely issued. Trade was taken from the private sector and placed in the hands of the government under the Ministry of Trade and Cooperatives on 12/27/82.

Tariff and Import Charge.--Even though Indonesia does not produce almonds domestically, the importation of almonds is further restricted by an excessively high tariff which now stands at 60 percent. A 10 percent import tax is also charged.

ISRAEL

The California almond industry has had a long-standing interest in developing the Israeli market for almond exports. This interest has been historically frustrated by Israel's tariff and non-tariff barriers which have obstructed U.S. export opportunities for almonds.

Import Duty.--A 15 percent ad valorem import duty persists in spite of the recently signed U.S./Israel Free Trade Agreement. Under the Agreement, the U.S. duty on Israeli almonds was immediately staged to zero, yet the Israeli duty on U.S. almonds will not be reduced to zero until 1995.

Variable Levy.--In addition to the tariff, a variable levy exists which is linked to the domestic price support system. The Israeli Government used this scheme and others to more than double U.S. almond import charges in one single year. The import levy which was 900 U.S. dollars per metric ton in September, 1984, was 1900 dollars per ton by September, 1985.

Import Deposit.--Importers are also required to provide an import deposit which the government keeps for 12 months. In January, 1985, prospects for U.S. almond exports significantly worsened when Israel raised its import deposit requirement from 40 percent to 60 percent of the landed value. This action was taken well after the Free Trade negotiations were under way. Thus, the Israelis were erecting additional trade barriers while at the same time negotiating for the reduction of U.S. tariffs.

As long as Israel maintains or continues to increase the substantial non-tariff barriers as outlined above, U.S. almond exports to Israel will be severely limited In terms of real access to the market, the eventual duty-free status for U.S. almonds will be meaningless unless Israel is forced to eliminate unfair non-tariff barriers to trade.

JAMAICA

Import Charges.--The Government of Jamaica imposes unreasonable import charges on almonds. The stamp duty is 40 percent on consumer goods and 16 percent on raw materials. Consumer goods are also charged an additional 15 percent consumption duty plus a variable levy of between 10 to 45 percent. These import charges unfairly restrict almond exports by an estimated one half million pounds.

JORDON

Tariffs.--On December 27, 1984, the government of Jordon defined almonds as a luxury item, levying the following tariffs against the formerly exempt import:

Item	Tariff Rate	Approx. $
Almonds, shelled	150 Fils/kg	37 cents/kg
Almonds, unshelled	200 Fils/kg	49 cents/kg

The impact on trade in 1985 has been considerable. Previous to imposition of the tariffs, the Jordanian market for almonds had been showing a promising growth trend. Whereas average monthly shipment of U.S. almonds for the years 1981-1983 were less than 50,000 pounds, monthly shipments for the six-month period ending 12/31/84 averaged over 165,000 pounds, with shipments for the month of December totaling 151,784 pounds (all kernel weight).

The impact of the tariffs is reflected in 1985 shipments as tallied by the Almond Board of California (there is reporting lag time in the figures; all are kernel weight). Shipments reported in January totaled only 63,443 pounds. February shipments dropped to 37,400 pounds, and March shipments were just 2,500 pounds. In April *no* California almonds were shipped to Jordan. May shipments were only 14,784 pounds, just a fraction of previous levels. More recently, shipments again equalled *zero* for the months of July and August, 1985. Clearly, the unfair tariffs have severely restricted almond exports to Jordan by as much as 1.9 million pounds annually. Efforts must be extended to see that Jordanian tariffs on almonds are eliminated.

KOREA

Tariff and Import Charges.--The Korean almond tariff was raised in 1984 from 40 percent to 50 percent ad valorem. In actuality it appears as if the duty with effective surcharges adds about 65 percent to the value of the imported product. The tariff and surcharges are excessive and unfair. Almonds are not even grown in Korea. Yet peanuts, which are produced domestically, are imported with just a 20 percent duty. Beyond the issue of equity, the Korean Government should also be made to realize that the almond tariff is not functioning at full potential as a revenue raising device, since the high level of the duty significantly restricts the quantity imported.

It is estimated that reduction of the duty to a rate of 10 to 15 percent ad valorem would result in a one million pound increase in U.S. almond exports.

Liberalization of the almond tariff would permit the timely expansion of an important market. Korea is looking for ways to diversify food products in preparation for hosting the 1986 Asian Games and the 1988 Olympics and would like to expand the availability of nutritious, western-style foods. Both Korea and the U.S. would benefit if Korea would relax the almond tariff. Since Korea currently has a trade surplus with the U.S., the export of California almonds to Korea is an area where the U.S. can obtain a concession that will help narrow the balance of trade.

MALAYSIA

Tariff and Surcharge.--Malaysia has been a major beneficiary under the Generalized System of Preference, and should extend complete reciprocity to U.S. imports, especially those that do not compete with domestically grown products. However, Malaysia unfairly levies a tariff of 25 percent plus the standard five percent surcharge against processed and/or canned almonds. Market expansion of up to one half million pounds could occur if only Malaysia would eliminate the unfair tariff.

MEXICO

Tariffs.--High tariffs are in place which serve to restrict the quantity of almonds which can be exported to Mexico. The tariff rates, based on invoice value, are 50 percent for shelled almonds and 25 percent for inshell. These tariffs are too high to be considered merely as protection for the small and essentially insignificant domestic almond industry. It is estimated that elimination of the tariffs would result in an increase of 4.3 million pounds of U.S. almond exports, valued at over 6 million dollars.

NEPAL

Import Licensing.--Nepal has a highly restrictive licensing system similar to that of India. Exports of almonds to Nepal are therefore extremely limited, even though the product is highly revered in this market. Efforts must be extended to provide a more liberal trade climate in Nepal for California almonds.

PAKISTAN

Import Licensing.--The Government of Pakistan will not grant licenses for the importation of U.S. almonds from the United States, yet does not exclude almond imports from Afghanistan and Iran. The Foreign Agriculture Service documented Pakistani imports of almonds from Afghanistan and Iran during the period 1982-85. These figures indicate that the potential for U.S. almond exports would be at least 4.6 million shelled pounds, if only we were not unfairly excluded from this market.

Tariffs.--In addition to import discrimination, very high tariffs also exist. A reduction in the tariffs would lead to an expanded market for all almond exporters.

Like India, Pakistan has tremendous affinity for almonds and it would prove an outstanding market for U.S. almonds. Action must be taken to gain equal access to Pakistan for U.S. almonds.

THE PHILIPPINES

Import Licensing.--Almonds are listed as banned import items by the Government of the Philippines. The Government forbids commercial banks to sell foreign exchange to purchase almonds, classifying the wholesome, high protein food in the "non-essential" consumer category. In 1981 the World Bank applied pressure on the Philippine government to allow a long list of nonessential consumer items to be imported. The list included chocolate-coated nuts, but raw and processed nuts were still banned from import.

Import Charges.--Even if the restriction banning almonds from import were removed, import charges exist which would restrict the quantity imported. A high almond tariff is assessed at 50 percent of the home consumption value (HCV), and in addition a 10 percent ad valorem duty is levied which is imposed on all imports per Executive Order 955 effective June 6, 1984. A commitment to liberalize tariff rates in the form of a "Structural Adjustment Program" was implemented with financial support from the World Bank, but almond tariffs have remained unchanged.

The exclusion of almonds from this market cannot be viewed as a protective measure since almonds are not domestically produced. The Philippines has long been a major beneficiary under the Generalized System of Preferences, yet refuses to grant reciprocity for U.S. almonds. Almonds continue to be unfairly excluded from this important market.

TAIWAN

Tariffs.--Almond exports to Taiwan are unfairly restricted by high tariffs. It is estimated that the tariffs cause two million pounds of U.S. almond exports to be forfeited annually.

The tariff for prepared almonds is 30 percent and the fresh almond tariff is 20 percent, ad valorem. These tariffs are unreasonably high, and in addition the tariff differential between fresh and prepared almonds further jeopardizes market expansion in Taiwan because of the incentive for brand name pirating. Inferior, poorly roasted products damage our reputation, hinder promotion of our branded products and discourage overall almond consumption.

Taiwan enjoys a favorable balance of trade with the United States, and also benefits under the Generalized System of Preferences. No domestic almond industry exists in Taiwan, so there is no reason for tariffs to be levied against these imports. Taiwan's tariffs on almond imports should be eliminated; in lieu of immediate elimination, the staging of tariff reductions should be changed from ad valorem basis to specific basis with no tariff differential between fresh and prepared almonds. Taiwan must make a commitment to a rescheduling of tariff reductions leading to a complete elimination of almond tariffs.

THAILAND

Almond exports to Taiwan have been severely limited by import licensing and high tariffs.

Import Licensing and License Charges.--Nuts are treated as luxury items and are imported only under licenses issued by the Ministry of Public Health. Issuance is discretionary, and import licenses are not freely granted. In addition, the licenses are reported to be very expensive, currently costing a minimum of 15,000 baht (approximately 545 dollars). If the products are imported in sealed containers, the importer must apply for recipe registration which adds 5,000 baht to the cost of the license.

Tariff and Import Charges.--In the event that an importer can obtain a license to import almonds, the price of the product is impacted not only by the cost of the license by also by an unreasonably high tariff. The tariff is 60 percent ad valorem or 50 baht per kilogram, whichever is higher. In addition to this excessive tariff, an import charge is levied at a "rate of standard profit," which for almonds is 16 percent of the ad valorem or baht rate. A nine percent "business tax" is then assessed on the rate of standard profit.

In spite of promising potential for market expansion in Thailand, almond imports are being unfairly restricted. It is estimated that elimination of the trade barriers outlined above would result in one million pounds of additional almond exports, valued at over 1.4 million dollars.

TRINIDAD AND TOBAGO

Tariff and Import Charges.--A 45 percent duty is compounded by a 10 percent purchase tax and a 12 percent stamp duty.

Quota.--An almond quota exists which was recently reduced in 1985 by some 55 percent.

Restrictions on the outflow of foreign exchange further limit almond exports to this market. It is estimated that the sum of Trinidad's restrictive import policies serve to unfairly limit almond exports by some one half million pounds.

VENEZUELA

Import Licensing.--The Government of Venezuela has an official policy which prohibits the importation of almonds. The prohibition is dropped before the Christmas season each year for two months. Even so, almond exports to Venezuela are minimal because import licenses are extremely difficult to obtain. Very high tariffs are also levied. In spite of promising market potential, these barriers cause 1.2 million pounds of almond exports to be forfeited annually.

OTHERS

Almond exports to Costa Rica are severely restricted by extremely high imports charges and strict exchange controls. The import charges consist of a 100 percent surcharge on the CIF value, plus high ad valorem and gross weight import duties and a 10 percent sales tax.

Colombia has banned imports of almonds. Trade sources report that importers place orders for almonds year after year but are unable to obtain import licenses.

STATEMENT OF RICHARD DOUGLAS, VICE PRESIDENT, PUBLIC AFFAIRS, SUN-DIAMOND GROWERS OF CALIFORNIA

Good morning, Senator Wilson. I am Richard Douglas vice president of public affairs for Sun-Diamond Growers of California. Sun-Diamond is a nonprofit, grower-owned and controlled federated cooperative composed of Sun-Maid Growers, Inc., and Valley Fig Growers. The cooperative serves over 5,500 growers who produce 49 percent of the walnuts, 40 percent of the raisins, 45 percent of the prunes, and 50 percent of the dried figs in the United States.

Senator Wilson, your attention to the issue of U.S./EEC farm trade and how it will be affected by Spanish and Portuguese accession could not be more timely. Only two days ago, the White House announced its response to Spanish and Portuguese restrictions to U.S. agricultural trade. Sun-Diamond was encouraged by the announcement's suggestion that at least one dimension of this dispute--the issue of Spain's variable levy on corn and sorghum--may well be resolved through compensation negotiations. In our view, the prospect of compensation negotiations is heartening because it offers a much needed vehicle for resolving the United States' longstanding dispute over EEC raisin practices.

A brief history of the raisin dispute will underscore why raisins are an appropriate item for compensation in this context.

In 1981, the California raisin industry joined with the California canned fruit industry in a section 301 action protesting the EEC's canned fruit and raisin subsidy scheme--which, for raisins, included at the time a combination of processor aids, storage subsidies, and a tender system. Evidence was submitted showing that the raisin scheme had distorted traditional trade with the EEC and other markets and had so severely depressed world raisin prices that the U.S. industry could not even recover its costs.

Persuaded by the petition, the U.S. Government took the matter to GATT dispute settlement. After two-and-one-half long years of deliberations, the GATT panel determined that U.S. rights on raisins had been violated. This was a short-lived success. Dissatisfied with the panel's ruling, the EEC filed an unorthodox request to reopen the record. Over strong U.S. protest, the panel acquiesced and reversed its decision on raisins without significant explanation. As you might expect, the panel's reversed decision quickly put an end to EEC interest in negotiating a settlement on raisins.

Leaving aside the obvious question of whether or not the United States and the U.S. raisin industry have received proper GATT review of this complaint, the fact remains that our industry continues to need relief from the EEC's practices. Indeed, these practices have become more, rather than less, complicated during the course of the dispute, adding to U.S. industry losses. Although never addressed by the GATT panel, the community compounded its raisin scheme in 1983 by instituting a minimum import price to protect its home industry, a practice that helped lock in artificially low world raisin prices below our cost of production.

This elaborate system of raisin subsidies and import protection has helped to create in California an unprecedented raisin inventory crisis, which literally threatens the survival of our industry. U.S. raisin inventories climbed from 355,000 fresh tons as of July 31, 1982 to 817,000 fresh tons as of July 31, 1985. World raisin prices are so depressed as a result of the EEC's practices that the California raisin industry cannot even afford to give these inventories away, as we would lose millions of additional dollars simply to package and ship the raisins.

In an attempt to hold on to our more traditional export outlets, the California industry has only been able to forestall complete displacement from the EEC market through grower contributions and government supported promotional efforts. As to the promotional assistance, our industry owes special gratitude to you for your legislative efforts mandating targeted export assistance. We are painfully aware, however, that even with promotional monies, our growers must still put up significant contributions of their own, which we cannot continue to do year after year and stay in business.

Should the accession dispute provide an opportunity for compensation negotiations--and we would hope that they would--this long-outstanding issue of EEC raisin subsidies should be examined and resolved once and for all. At a minimum, the processing subsidies of the EEC raisin scheme should be eliminated. This would save our industry some $15 million annually in revenue lost as a result of the EEC raisin scheme. Because of the interplay between raisins and wine, compensation on raisins would also undoubtedly help calm the tensions within California over skyrocketing imports of EEC table wine.

The EEC, too, if forced to address its raisin practices, would recognize gains from a settlement of this dispute. Although the GATT panel allowed its final decision to turn on a legal technicality, it nevertheless made clear its view that the EEC is paying Greek processors far more than necessary to cover the growers' costs. If this unnecessary largesse were eliminated, it would allow a meaningful reduction in the EEC's common agricultural policy budget. These savings are increasingly of interest to the EEC and were persuasive in helping to achieve an EEC commitment to eliminate its processing aids on canned fruit.

In short, of the $625 million being sought in compensation by the United States for Spain's variable levies, raisins deserve prominent attention. Although the record of loss to the United States' industry as a result of the EEC raisin system is well established, GATT dispute settlement procedures were unsuccessful in providing relief. Moreover, bilateral settlement efforts to date have failed to yield results. The accession compensation talks, should they occur, offer a rare opportunity to resurface and resolve this matter. Senator, we request your assistance and support in the coming months before July to ensure that this opportunity is not lost.

That concludes my remarks. Should you have any questions, I would be happy to try to answer them.

STATEMENT OF WILLIAM K. QUARLES, REPRESENTING SUNKIST GROWERS, INC.

Sunkist Growers, Inc. and its 6,000 member-growers wish to commend you, Senator Wilson, for undertaking this hearing to develop information impacting on our ability to export and for your intense interest in agricultural trade. I am sure you are as concerned as we in California agriculture that our exports are declining; that they declined from $4.2 billion to $3 billion from 1981 to 1983, a 27 percent decrease.

As you well know, California agriculture exports about one-third of its production. The citrus industry is no exception. Roughly one-third of Sunkist's $837 million in revenue last year were from exports. Our export markets are vital to us.

Agriculture, unlike industry, cannot bring supply and demand into balance by speeding up or slowing down the assembly line, particularly tree farmers. They simply have to take what mother nature provides each year and sell it. When our traditional export markets dry up, we must then market it domestically which simply backs the problem up.

With that as background I will endeavor to comment on the specific topics on which you have requested testimony. These comments will, of course, be from a citrus industry perspective.

What is the outlook for California farm exports to the European Community and the effect the accession Spain and Portugal will have on future EC trade opportunities.

The outlook is not a good one.

As you know, the California-Arizona citrus industry has been severely damaged, to the extent of approximately $45 million per year by the discriminatory tariff preference scheme the European Community provides on citrus. During this time of year while California growers must pay a 20 percent duty on the landed value of oranges exported to the European Community, Morocco pays 4 percent, Israel pays 8 percent, Spain pays 12 percent and all other Mediterranean Basin citrus producers are sprinkled in at one level or another between 4 and 12 percent. This provides a major competitive disadvantage to California. Not only do we have the higher transportation costs to overcome, we have the tremendous disparity in tariff. This is a blatant violation of Article I of the GATT, the most favored nations provisions.

Spain is a major citrus producer. Eventually Spain's tariff will faze to zero as they become a fullfledged member. Because of Spain's geographical proximity to the other major market areas within the community, they will have a competitive advantage over the other preferred countries such as Morocco and Israel. Accordingly, we can expect citrus volume from Spain to displace citrus from Morocco and Israel in the European Community. Much in the same way the discriminatory tariff preference scheme has allowed Moroccan and Israeli citrus to displace California citrus in the European Community. When the Moroccan and Israeli citrus is displaced from the European Community, a home for it must be found. And we are seeing a great deal more Israeli and Moroccan citrus in the U.S. As a matter of fact, with the U.S.-Israeli free trade area which simply means that Israeli citrus comes into the United States duty free and with absolutely no modification on the duties of the citrus going the other way, it appears the U.S. is encouraging this result. This is simply another instance where U.S.-Foreign Policy gets tangled up with U.S. trade policy and U.S. traders, particularly U.S. agricultural traders, get the worst of it.

You have asked for commentary on agricultural trade problems associated with the GATT which need to be resolved during the next round of multilateral trade negotiations.

A. Through the previous rounds of trade negotiations, the importance of tariffs in major crops have declined, however, they continue to be extremely important to our ability to export specialty crops to some countries. As an example, the U.S. tariff on citrus imported into the United States ranges from 0 to roughly 5 percent ad valorem. On the other hand, we are currently paying a tariff of 40 percent on the landed value of oranges exported to Japan. This is an inordinately high and difficult tariff to contend with.

Further, 90 percent of the agricultural tariffs of the United States are bound contrasted with only 60 percent in the other developed countries and a far lesser percentage in most lesser developed countries. The U.S. should undertake to obtain more tariff bindings.

B. Subsidies are a major problem. The safety valve of the common agricultural policy of the European Community are the export subsidies that allow them to dump their agricultural surpluses on the world markets. The subsidies code negotiatied during the Tokyo round is simply inadequate. In the new round, the U.S. must seek clearer guidelines on subsidies and a general prohibition on all agricultural subsidies with few exceptions such as food aid.

C. Other nontariff barriers continue to inhibit our ability to export. I mentioned the discriminatory tariff preference scheme of the European Community. Other forms of nontariff barriers faced by California's agricultural exporters are import quotas, variable levies, minimum import prices, certain health and safety requirements as well as phytosanitary measures. In this later regard, you are well aware that Korea has recently unilaterally declared California to have a Mediterranean Fruit Fly infestation. Based upon this unilateral declaration Korea is requiring all imported citrus to be subjected to cold treatments which virtually destrcy the shelflife of the fruit rendering it unsaleable. We applaud your aggressiveness in calling Korea on this outrageous measure.

For the new round of trade negotiations to be a success for agriculture, the U.S. must seek GATT discipline over all agricultural import restrictions. All nontariff barriers should be phased out.

D. Currently, the dispute settlement mechanisms are virtually useless. Many section 301 complainants, such as citrus have been forced to endure deteriorating rather than improved trading positions during protracted procedures. In citrus, when the United States retaliated after the European Community refused to implement a GATT panel decision, the European Community counter-retaliated in a manner to damage not only the citrus industry but the California walnut industry, an arrogant display of defiance.

Reforms are needed in all phases of the dispute settlement process. It should be expedited. Panels should be taken from a panel of professionals; rules should be promulgated to make it more difficult to reject a panel report and to expedite a GATT council approval and mandatory deadlines for compliance should be established, failing which retaliation by the aggrieved party would be automatically authorized.

Only if these objectives are achieved will any meaningful progress be made toward freer and fairer trade in agricultural products during the forthcoming MTN.

What is the impact which future bilateral, free trade agreements--between the United States and Canada or possibly the United States and Mexico, have on the California economy.

In the view of the citrus industry, it will have a severe negative impact on the California agricultural economy if future free trade agreements end up the same way the U.S.-Israeli free trade area ended up with agricultural trade free coming this way and virtually unaffected going the other.

What is the influence of the 1985 farm bill on California farm exports.

This measure, we believe, will have a significant positive impact. Primarily the beneficial provisions are with the targeted export assistance provisions which you not only fought to have included in the farm bill but also fought to save from elimination in the so-called farm bill II. We are well aware that the $325 million originally in that bill was eliminated and virtually solely through your efforts was $110 million restored. This money will enable many in California agriculture, particularly many commodity groups suffering from illegal trade activities of our foreign trading partners to reintroduce their products into traditional foreign markets and otherwise develop new markets.

The citrus industry not only applaudes your efforts but also the results those efforts achieved.

Thank you.

STATEMENT OF LARRY LaTOUF, EXECUTIVE VICE PRESIDENT, CALCOT, LTD.

Good Morning. My name is Larry LaTouf, Executive Vice-President of Calcot, Ltd. Calcot is grower owned cotton marketing cooperative based in Bakersfield, California. We represent over 3300 producers from California and Arizona who produce nearly 2 million bales. While this represents about 15 percent of the national production, we normally ship about 25 percent of the country's exports since 70 percent of our cotton is usually exported. Because of this the ability to compete in world markets is critically important to our growers. My comments today will be brief in order to allow adequate time for discussion.

During the 1970's and early 1980's cotton exports from the United States averaged about 6 million bales, peaking at over 9 million in 1979. Farm legislation provided for income supports for American producers, but we were able to compete in world markets. However, the strong dollar policies of the early 1980's amounted to a 50 percent subsidy to foreign producers encouraging surplus production worldwide. With the combination of an income support program and this implicit subsidy to foreign growers, U.S. cotton was priced out of foreign markets. For the 1985-86 season exports will fall the lowest level since 1955, about 25 percent of the exports in 1979. Since U.S. mills consume only about 50 percent of the cotton grown in the United States, it was imperative that we recapture lost markets. While the trade title of the 1985 farm bill does contain some provisions addressing this problem it was the general commodity provisions that will make the biggest impact. While some people have commented that there was no major shift in farm policy, we do not believe that to be true. While income supports were maintained for American producers, the bill allows for U.S. commodities to be sold into the world market at competitive prices. I will devote most of my comments to the market enhancement provisions of the farm bill because they are of the most importance to the cotton market.

Before I discuss the market enhancement provisions, let me make some reference to the trade title of the farm bill. Credit programs have always been important to export sales. We urge that these programs be maintained and fully funded. The credit guarantee programs make trading possible while not placing undue costs on the American taxpayers. The trade title also provided for an export enhancement or bonus program. We do not support subsidies for exports of raw cotton from the U.S. while not providing for a similar price to American mills. The only thing accomplished by a two price system is to shift production of textile products from U.S. mills to foreign countries, exacerbating the textile trade deficit. If the export bonus program is to benefit cotton growers, it should apply to the exports of value added cotton products such as textile exports.

The market enhancement provisions of the farm bill provide a framework which mandates that U.S. cotton be available to the world market at competitive prices. The impacts of this policy have already been felt. Weekly cotton export sales for the current crop continue to languish averaging only 15,000 bales, while sales of new crop cotton, available at competitive world prices are currently averaging above 60,000 bales. Sales to date stand at 40 percent above where they were a year ago.

For the market enhancement provisions to work cotton must be made available at "competitive" prices. This means that the formula for the "adjusted world price" must allow U.S. cotton to compete. However we must remember that U.S. cotton has never needed to be the cheapest growth in the world to sell. Establishing a system that guarantees that we are always the lowest growth will put in place a predatory system that guarantees failure in the long run for the market enhancement program. We wonder if including U.S. quotas in the world price formula does not allow for a snowball effect with predatory prices when U.S. prices become competitive? Using a price that is too low may allow us to sell cotton this season, but we must remember that our growers are in business in the long run. If the costs of the program become too high, its future is in doubt. On a recent foreign trip I discovered that many foreigners already believe that our farm program will only last a single season. As a result they are not reducing their acreage, which is the only way that the surplus situation can be corrected in the long run. Instead they believe that if they can hold for one season, that the cost of the market enhancement program will cause it to be discontinued. We must convince the world that this is a long term program, that the U.S. is fully committed to competing in the world market.

In addition to our concerns about the market enhancement provisions, we are very concerned that an unexpected impact of the administration of the Gramm-Rudman cutbacks will create chaos immediately. We are not suggesting that the Gramm-Rudman cuts not be made. Indeed nothing is more important to the long term viability of our cotton industry than correcting our budget deficits. Let me explain how Gramm-Rudman will affect the cotton growers. Growers will have two separate choices on how to receive the benefits of market enhancement. They can choose to place all of their cotton in the loan at 55 cents. However, since all of this payment is in cash they will actually receive 4.3 percent less than 55 cents, or 52.63 cents. They will then be able to repay this loan at 44 cents, so the market enhancement benefit to the grower is 8.63 cents. On the other hand a grower can choose to forego the loan and instead receive a loan deficiency payment of the difference between the loan (55 cents) and the loan repayment level (44 cents). This difference of 11 cents will be half in commodity (P.I.K.) and half in cash. The 5.5 cents in cash will be subject to the 4.3 percent reduction so that the grower will only receive 5.26 cents. The total benefit from the market enhancement will therefore be 10.76 cents, versus 8.63 in the loan. This will cause many growers to forego the loan, which will make the cotton ineligible for the price support. This is particularly true since the U.S.D.A. is interpreting the farm bill as requiring that a producer either use all the loan or all loan deficiency payments. This means that a grower who decides to receive a loan deficiency payment on a single bale will make all the rest of his crop ineligible. When all of this ineligible cotton is combined with the P.I.K. that will be returned to the producers, the amount of cotton ineligible will flood the market. The only result will be for U.S. prices to fall so low that growers will be better off in the loan, which means that U.S. prices will need to be over 2 cents below prices in any other country of the world. As a result the costs of the Farm program will skyrocket and we will have a predatory system. We believe that this problem can be corrected by allowing producers individual bale discretion on whether to use the loan or loan deficiency payment. Hopefully this can be accomplished administratively be letting the U.S.D.A. know that it was not the intention of Congress to make this an all or none decision nor to restrict in any way the amount of cotton that can enter the loan. At this time there is perhaps no more important issue for the cotton industry than clearing up the unexpected impact of Gramm-Rudman on the growers decision to use the loan.

Generally we believe that the 1985 farm bill took a big step towards allowing us to recapture our lost markets. If we can administer this program such that foreign producers believe that we are serious about our intent, we believe that U.S. cotton will again be a major factor in the world cotton market. Congress has provided an atmosphere which allows American producers to regain lost markets. However we realize that we also must play a role. We will only regain these markets by aggressively promoting our products. With the ability to compete it is still up to us to prove that we can. We believe that the American producer is the most efficient in the world. We intend to prove it.

[The following information was provided by the USA Poultry & Egg Export Council and suggested actions are supported by the Pacific Egg & Poultry Association:]

TRADE POLICY BARRIERS FACED BY THE U.S. POULTRY INDUSTRY

Country. European Economic Community.

Product affected. All poultry products.

Barrier definition. Variable levy, grain adjustment levy, threshold price are all market access tariffs and levies applied by the common agricultural policy to lock product out from selected origins.

Effect on market. Plus 20 million dollars a year as a conservative estimate.

Suggested action. U.S. Government and EEC Council and individual EEC member negotiations both directly and through the GATT, to establish modified regulations allowing product to enter the market in competition with domestically produced product rather than at substantially higher prices than domestically produced product.

Country. European Economic Community.

Product affected. All poultry and further processed products.

Barrier definition. Unrealistic import inspection requirements.

Effect on market. Plus 25 million dollars a year. EEC is requiring certification of U.S. slaughter, cut-up and further processing plants for export to the EEC based on requirements that do not have to be met by EEC producers by marketing in the same markets to the same consumers.

Suggested action. USDA Trade Policy Division as well as State Dept. require both directly and through GATT the CAP regulations and individual member country regulations allow product access when that product and the plants from which that product originates meet the same requirements of EEC and member country plants are required to meet for production and sale of product within those markets.

Country. All buying nations.

Product affected. All poultry and their products.

Barrier definition. EEC export restitutions, although not specifically a trade barrier, are designed in a manner allowing EEC member nations to dump product on external EEC markets in competition with the U.S. The export restitutions reimbursements to EEC exporters are adjusted on an ongoing basis to compensate for the difference between internal subsidized EEC target prices and whatever price that is required to move the product considered surplus outside of EEC markets. This creates a situation where the U.S. producer, therefore, has to compete with the treasuries of European Economic Community and its individual member states with the obvious effect being the displacement of U.S. product.

Country. Korea.

Product affected. All poultry and poultry products.

Barrier definition. No U.S. poultry allowed to be exported to Korea.

Effect on market. Ban causes sale of poultry products to Korea representing at least 4 million dollars per year.

Suggested action. Remove all restrictions, develop free access to market. USDA Trade Policy Division should establish negotiations on a government to government basis to eliminate this overly restrictive trade barrier. Even though there is deman for U.S. product and interest by importers activity at this time will be of no benefit since there is no product of any type in the system. Priority on this situation should be considered very high as we look ahead to the 1988 Olympics which will be held in Korea. This will create a rapid growth in demand and access of product at this time would allow for very effective promotion activities.

Country. Japan.

Product affected. Egg products.

Barrier definition. Current import duty for whole egg and yolk products is 25 percent or 60 yen per kilogram which ever is greater. This is the highest duty of all those within their duty and tariff system.

Effect on market. 6 million dollars a year.

Suggested action. USDA Trade Policy Division and Export Council work with industry and officials in Japan to establish reduced tariff rates for whole egg and yolk products to equivalent of egg white products being imported into Japan at 10 percent.

Country. Japan.

Product affected. Poultry meat and further processed products.

Barrier definition. All import duties on other poultry products can be considered as trade barriers are still in place, however, are being reduced. Special attention should be given to boneless and further processed product.

Effect on market. Although this will tend to increase current market for U.S. in Japan by reducing shelf cost of product to reasonable threshold level, the product of other origins (i.e., Thailand) will have a price advantage based on proximity to market and labor costs involved in production and processing. Every 2 percent reduction in duty should increase market by 5 million dollars.

Suggested action. Continued contacts and discussion negotiations between U.S. Trade Policy Division. Export Council, continued contact and information provided to Ministry of Agricultural officials involved in this decision process.

Country. Taiwan.

Product affected. Chicken.

Barrier definition. Chicken imports banned, only turkey allowed import into this market. Barrier erected to protect fragile local production.

Suggested action. Encourage USDA Trade Policy Division to engage in negotiations with government of Taiwan to allow access for U.S. poultry as one means of improving trade balance with Taiwan. Export Council to continue trade and government contact, encourage trade which has an interest in purchasing chicken and chicken products to request their government to lift access barriers. Priority would be total elimination of barrier. Partial mitigation of barrier would allow importation of product to supplement local production to predetermined level. This would allow imports as well as growth in domestic production.

Country. French Pacific Islands (Oceania).

Product affected. All poultry meat and further processed products.

Barrier definition. Unfavorable tariff and duty structures. More favorable duty and tariffs for poultry products are granted to the European Economic members than to the United States.

Effect on market. At least 3 million dollars per year.

Suggested action. Negotiation by USDA Trade Policy Division to develop fair and equitable tariff structure. Export Council to maintain and further develop trade contacts in an attempt to direct internal pressure by importers and distributors.

Country. Fiji.

Product affected. Poultry meat and further processed poultry products.

Barrier definition. Unofficial trade barrier in that government will not issue import licenses for product.

Effect on market. 1 to 1.5 million dollars per year.

Suggested action. USDA Trade Policy Division to recommend on government to government basis free access to market based on market demand. Export Council to maintain trade contacts with importers and distributors to attempt direct internal pressure to local government for issuance of licenses.

Country. Philippines.

Product affected. Chicken.

Barrier definition. Ban on U.S. chicken, in support of domestic production.

Effect on market. Elimination of barrier would provide minimum 5 million dollars a year in U.S. chicken exports.

Suggested action. Same as Taiwan.

Country. Philippines.

Product affected. Turkey and Duck.

Barrier definition. Although, no official barrier or ban has been placed on the importation of turkey, duck or further processed products, Central Bank approval for Letters of Credit must be received prior to issuing L/C. These have been very difficult if not impossible to obtain.

Effect on market. Substantial reduction in export of turkey and duck to the Republic of the Philippines. Market loss represents at least 2 million dollars per year.

Pacific Agricultural Cooperative for Export, Inc.,
Corte Madera, CA., April 2, 1986.

Senator Pete Wilson
Agriculture Hearing
California Department of Food & Agriculture
1220 N. Street, Room 127
Sacramento, California 95814

Dear Senator Wilson:

This statement is made on behalf of the Members of Pacific Agricultural Cooperative For Export, Inc., a California cooperative corporation registered with the Federal Trade Commission and qualified as a Webb-Pomerence Association. The goal of PACE is to assist and promote the export of the raw or processed agricultural, food, or other products of its members. PACE's membership of 14 companies represents a cross section of California specialty crops--dried fruit, walnuts, almonds, raisins, prunes, wine, canned fruits and vegetables.

We request your office to continue your efforts with the United States representative at GATT to pay more and successful attention to improving the lot of California specialty crops in dealing with the EEC and with Japan. Particular attention must be paid to non-tariff barriers and the strict follow-up of the agreement itself and its intent.

We wish to impress upon you and your colleagues the seriousness and urgency of the market situations and their affect on the agricultural community of California.

Keep up the good work, Senator Wilson.

Sincerely,

J. Murray Fox, Executive Secretary.

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CALAVO GROWERS OF CALIFORNIA,
Los Angeles, CA, March 24, 1986.

Senator Pete Wilson
1130 "O" Street, Room 4015
Fresno, CA 93721

Subject: Agricultural Export Trade Barriers - Avocados

Dear Senator Wilson:

Your news release of March 14 called for testimony regarding matters that impacted the free flow of California agricultural products into the world marketplace. I wish to submit into testimony facts regarding a phytosanitary barrier effectively stopping California avocado exports to the Australian market.

Australia protects its seasonal domestic avocado growers with phytosanitary barriers that effectively restrict any importation of avocados from California. The Commonwealth Department of Health, Australian Agricultural Health and Quarantine Service Division requires that all fruit imported into Australia be certified free of both sun blotch and black streak. These are viral infections that reportedly can be passed on by grafting seeds or possibly pollenation. Black streak is next to impossible to detect. As a result, it is an effective barrier for all imports into Australis. This is a remarkable requirement as the root stock and the cuttings for the Australian industry all came from California.

Calavo is particularly frustrated with the barriers that have been established protecting the Australian market from the importation of California avocados. We know that Australia has an excellent and growing avocado production, and a neighbor, New Zealand, that is most interested in keeping this exciting market to themselves. However, there are times of the year when low volumes from both Australia and New Zealand drive the price to the point where California can economically export by air into Australia. The marketplace dictates when this opportunity is available. Naturally, when the free market is allowed, high quality fruit from an opposite season northern hemisphere shipper, keeping their market pump primed with avocados. Importantly, Australian consumers would be able to buy avocados at reasonable prices for the full year. A few off season Australian growers might have their windfall profits reduced; however, at the prices necessary for California to air ship to Australia, this should have minimal impact on the return they receive from off season fruit supply.

For this reason, it is requested that efforts be made at both the state and federal level to eliminate totally the sun blotch and black streak phytosanitary barriers. If this not be successful, a seasonal lifting of these barriers should be considered to allow for the free market flow of California avocados to this desirous market.

I plan to be in Sacramento April 2 for the California Foreign Market Development Export Incentive Program Seminar at the Red Lion Inn and at the CDFA luncheon. I would be most happy to discuss in more detail this specific Australian trade barrier at the luncheon, if the opportunity and interest is present.

Sincerely,

CALAVO GROWERS OF CALIFORNIA,
Stephen F. Layton, Vice President.

PACIFIC INTERNATIONAL RICE MILLS, INC.,
Woodland, CA, March 31, 1986.

U.S. Senator Pete Wilson
1130 "O" Street, Room 4105
Fresno, CA 93721

Dear Sir:

As the largest independent rice mill in California we would like to express our comments and opinions with regard to the Agricultural Committee Field Hearing scheduled in Sacramento, April 2, 1986.

The effect of the Farm Bill enacted last year will place U.S. agricultural exporters in a more realistic frame to market their products. The immediate effect of this will stimulate growth in the economy and help reduce the increasing trade deficit. Of course, the major deterent of the program will be the reaction of foreign competition following the announcement of the World Market Price or the cost of redeeming the raw commodities under loan. We view the bill as a positive move on the part of USDA though feel that foreign markets should be closely observed for counterveiling measures. Particularly so with rice, where the market potentially could be driven down to unrealistic levels.

The question also arises as to what repercussions this may have on domestic markets. Due to extensive stockpiles this bill promises to put more product on the market thus posing the prospect of lower domestic prices in markets where consumption remains a constant factor. With an increase in exports the growers may see an advance in their returns; depending to what extent marketers will go to sell the product. If it is not necessary to use the full benefit of the World Market price the growers and marketers could realize higher returns. If it is necessary to figure sales at a price using the full benefit of the World Market Price the growers and marketers will probably not see any increased returns. Exports will afford California another outlet or control of the traditional problem of oversupply. Additionally, if a partial PIK program is implemented CCC stocks could be reduced substantially, hence reducing the huge interest and storage costs being incurred.

Unfortunately, competitors aren't going to stand back and watch their market shares be plucked away by the U.S. If competitors are able to counter the farm bill in any way and prevent the U.S. from obtaining a competitive position, the natural tendency will be to scramble for additional market shares domestically.

This would create two different situations. For California commodities that are competing against foreign commodities for domestic market share, the price will drop down to compete with imports. For California commodities that are not confronted with foreign competition domestically, the price should stay relatively stable.

Carefully implemented, with the right tools, the California exporter has the opportunity to turn the tables to develop new and regain lost markets.

Sincerely,

PACIFIC INTERNATIONAL RICE MILLS, INC.,
Michael Rogers, Export Sales Manager
Kirk Messick, Assistant Sales Manager

JOINT STATEMENT OF MICHAEL BOCCADORO AND JULIA LOEWY, CALIFORNIA AGRI-COUNCIL ON INTERNATIONAL TRADE: COLLECTIVE REPRESENTATION FOR AGRICULTURE AT MULTILATERAL TRADE NEGOTIATIONS

Six years have passed since the completion of the Tokyo Round of multilateral trade negotiations. During that time, numerous changes in the economic and political relations have altered the domestic and international markets for California's agricultural products and it is evident that a new round is on the horizon.

The California Agri-Council on International Trade (CACIT) was established in 1976 by members of the California agricultural community during the Tokyo Round of Multilateral Trade negotiations (MTN) to help alleviate two major deficiencies which had plagued California producers in the previous conduct of such affairs:

1. Inadequate flow of information from the negotiations to the producer. Producers were poorly informed about the status of negotiations on issues pertaining to their crops.
2. Poor communication from the producer to the U.S. negotiator. Although an advisory structure existed which was intended to inform the United States Trade Representative of public sentiment, it lacked the ability to represent adequately the views of the agricultural community.

CACIT, comprised of ten producer organizations and the California Farm Bureau Federation, focused on the needs of specialty crop agriculture. Its "specific and primary purposes were to perform research and communication services related to tariff, nontariff and international trade issues concerning agricultural products from California".

The key elements of the CACIT program were as follows:

1) Personal contacts in Washington, D.C., Geneva, Brussels, Paris and London to develop an awareness of CACIT and the specialty crops it represented.

2) Identification of the objectives of each CACIT member in the MTN for both export-oriented and import-sensitive crops and products.

3) Reporting and interpreting the cause of events in the MTN, with particular emphasis on the nature and timing of action by CACIT members to achieve their objectives on a commodity-by-commodity basis.

To accomplish these tasks, members of CACIT sent a consultant to the negotiations to present their objectives and to keep members informed of relevant developments. Many individual product goals were met by CACIT, although more success was achieved in maintaining domestic protection than in gaining increased access to foreign markets. After the Tokyo Round ended, interest in keeping CACIT active dwindled. Today, although CACIT still exists as a legal entity, it lies dormant. A core group of officers and board members remains and infrequent meetings are held to discuss current agricultural trade issues.

Formal preparations for a new round of multilateral trade negotiations have been scheduled for September of 1986 and effective representation is especially critical in view of increased foreign competition, the high value of the dollar, and declines in farm income. A review of CACIT's performance and the current needs of California agriculture have resulted in the recommendation that the following plan be carried out to establish optimal representation for California agriculture.

- o Introduce legislation to establish publicly funded representation which would allow the entire California agricultural community to present a unified front on the broader issues of trade policy.
- o Hold an organizational meeting to determine the scope of membership, priority issues of common interest (e.g., subsidies code, licensing procedures, dispute-settlement mechanism), and services to be made available to individual groups.
- o Introduce legislation to finance the program. Advocacy of issues of common interest and information from the negotiations should be funded by the government.
- o Individual interests and specific concerns must be funded through private sources to avoid conflicts of interest which might develop if common resources are used to promote individual crops' interests.
- o Establish an advisory committee representing various sectors of California agriculture. Supervision by and advice from the commodity representatives will result in provision of the services most needed and desired.
- o Hire a consultant who will do extensive travelling to attend negotiations. It is strongly recommended that the consultant work closely with the U.S. negotiating team, observing the negotiations and reporting first-hand on issues as they arise.
- o Begin now. Formal preparations for the new round of negotiations begin in September of 1986. One of the biggest disadvantages CACIT had in the Tokyo Round was that it was established too late to be active during the request phase of negotiations and was relegated to an essentially defensive role. It is vital that representation be established before the request phase so that the organization can lobby effectively for the decrease of foreign tariffs on California crops.

For a more detailed analysis and additional recommendations please refer to CALIFORNIA AGRI-COUNCIL ON INTERNATIONAL TRADE: COLLECTIVE REPRESENTATION FOR AGRICULTURE AT MULTILATERAL TRADE NEGOTIATIONS.

SOUTH FLORIDA GROWERS ASSOCIATION, INC.,
Goulds, FL, April 17, 1986.

Senator Pete Wilson
United States Senate
Washington, D.C. 20510

Dear Senator Wilson,

A copy of the testimony of the California Avocado Commission, on April 2, 1986 by Mark Affleck has been sent to us.

We want to go on record as fully supporting the position of the California Avocado Industry.

Here, in Florida, we are also suffering from over-production of U.S. grown avocados, and we don't need additional fruit coming in from Mexico, Chile, Israel, etc. Under the CBI Program, we already are seeing additional supplies of Caribbean grown avocados coming into U.S. markets.

In addition to the economic effects in our markets of increased quantities of foreign grown avocados, we now are seeing the introduction of many damaging insects and pests entering the U.S. with these foreign shipments.

In Florida we have been suffering for almost three years in attempting to eradicate citrus canker, which we believe originally came in with Mexican citrus shipments! We feel that the APHIS Department of our U.S.D.A. has been very lax, negligent, and unable at times to cope with the pathological problems posed by shipments of produce from countries where horticultural pests and diseases are endemic.

We are asking our Florida Senators and Congressmen to take note of Mr. Affleck's testimony, as well as our own concerns.

Very truly yours,

Harold E. Kendall.

California Avocado Society, Inc.,
Saticoy, CA, April 17, 1986.

Honorable Pete Wilson
U.S. Senate
Washington, D.C. 20510

Dear Senator Wilson,

On behalf of the California Avocado Society, I am endorsing Mark Affleck's recommendation for consideration by the California State World Trade Commission.

I am convinced that California must take a hard look at trade barriers and competitive freedom. This would involve a careful assessment of our strengths and our weaknesses in the marketplace, and the realities of international politics. I think Mr. Affleck's letter is a frank beginning.*

Thank you for your consideration.

Sincerely yours,

California Avocado Society,Inc.,
W.H. Brokaw, President.

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*See p. 75 for a reprint of Mr. Affleck's statement.

STATEMENT OF WORLD-WIDE SIRES, INC.

We respectfully submit the following testimony and supporting documentation to illustrate that the Republic of China (Taiwan) has established what in effect are trade barriers for the exportation of frozen livestock semen from the United States through the introduction of unreasonable health requirements. Additional we wish to express our dissatisfaction with the USDA/APHIS office in Washington, D.C. in addressing this issue and in attempting to negotiate a more realistic health testing protocol.

World-Wide Sires and the entire U.S. A.I. Industry have been shipping frozen livestock semen, both cattle and swine, to Taiwan for more than ten years. During that time Taiwan has required a health testing protocol of all bulls and boars similar to that followed by many other countries. These requirements have eliminated some bulls for health reasons and have provided more than adequate safeguards to livestock breeders in Taiwan from the risk of introducing diseases through imported semen. The previous health requirements were consistent with those of other Asian countries that have imported semen from the U.S.

The new health requirements were received by World-Wide Sires on January 10, 1986. Prior to this date we were not forewarned that new requirements were being developed. The new requirements went into effect immediately and all U.S. suppliers (Artificial Insemination [A.I.] Stations) were advised that they must follow them. However, no A.I. Stations in the U.S. can meet these requirements. During 1985 exports of livestock semen from the U.S. to Taiwan total approximately 300,000, thus unless immediate action can be taken, we will lose this market.

We believe the recent changes proposed in the requirements for Taiwan were prompted or suggested by one or more other countries in an attempt to capture this market for themselves. The Taiwanese Veterinary Officials have indicated that any changes in their new requirements must be negotiated through official channels, that being through USDA/APHIS. We initially requested assistance from USDA/APHIS in mid-January of this year but to date no action has been taken.

Attached is a letter that was sent on April 2, 1986 to Mr. Bert Hawkins, Administrator of APHIS, bringing this matter to his attention. Attached also is a chronological summary of the major items of correspondence addressing this issue which further supports the fact that APHIS had been notified that changes were proposed and that no U.S. semen supplier could meet these requirements until changes were negotiated. These are the relevant copies of correspondence outlining the lack of action from APHIS on this matter.

Through this testimony it is our desire to initiate a response from USDA/APHIS to Taiwan in hopes of impressing upon the Taiwan officials that these requirements are unreasonable and should be negotiated. Also we wish to bring this to the attention of the hearing committee in hopes that similar delays on the part of USDA/APHIS do not occur in the future. As soon as a workable set of health requirements is established that all U.S. suppliers can meet, the U.S. A.I. Industry will be able to resume semen shipments to Taiwan.

In the interest of continuing the promotion of free trade between the United States and Taiwan, we hope the above issues will be resolved and that through the action of this committee, the Taiwanese will be duly notified that we consider the imposition of the new health requirements an indirect trade barrier. We further urge them to rescind the prohibitive new requirements so exporters of semen from the United States will again be able to supply their product to livestock breeders in Taiwan.

World-Wide Sires, Inc.,
Hanford, CA, April 2, 1986.

Mr. Bert W. Hawkins
Administrator
USDA/APHIS
USDA Administration Building
14 Street & Independence Avenue
Washington, D.C. 20250

Dear Mr. Hawkins:

To refresh your memory, World-Wide Sires, Inc. is the exporting arm of all the American Artificial Insemination Cooperatives throughout the world, except in the Americas. Therefore, to the best of our knowledge, we are the world's largest exporter of frozen bull semen and we also export frozen swine semen. Our annual exports run between $8,000,000 and $12,000,000 a year. These additional sales have been extremely important to the thousands of farmer members of these Cooperatives, since these sales have helped underpin costs for the U.S. dairymen.

One of our great problems is meeting the health regulations imposed by other countries. Often, as you are well aware, they are unrealistic or even false trade barriers and they change on relatively short notice. In these times, our fortunes rest upon speedy attention by APHIS with assistance from the National Association of Animal Breeders (NAAB).

We of the industry have been very concerned in the past with the delay and lack of attention by which these matters were treated. A case in point was the negotiations with Great Britain wherein it often took more than a month to get a reply back to that country's ministry. I'm sure you are familiar with that experience. I am pleased to say that we are preparing for the second exportation to Great Britain, and appreciate APHIS's help in bringing about some very important changes the British were considering which were effective this year.

Attached you will find a copy of the letter sent to Dr. Atwell last year expressing our concerns with the "length of time required for correspondence with overseas veterinary authorities concerning health negotiations for the export of U.S. semen". I went on to say, "while it is in our opinion that through your efforts the situation has improved considerably over the last 12 months, I feel there are still problems". I then proceeded to cite some problems concerning Australia.

I am writing today to express our serious concern that the situation has now reverted back to where it was a year ago. We presently have orders in excess of $100,000.00 worth of semen to be exported to Taiwan - one of our good and steady customers. I have attached a chronological record of events which we have been familiar with concerning the changes which the Taiwanese considered and the lack of immediate response from APHIS.

I have been advised that there were some problems, since we do not have an embassy there, and that one message that was sent approximately two weeks ago was returned and it was being resent. I was further advised that if it did not go the second time, then it would be sent directly to the person it was addressed to.

I cannot understand why it takes approximately two to three months from the time your agency is notified of these proposed changes before a reply can be sent. I further cannot understand why it cannot be sent directly and, in fact, why at least initially a follow-up could not be done by telephone.

You will note attached in the chronological order that our agents advised us of the new health requirements through their January 4th letter. We advised our agents on January 13th that to the best of our knowledge no artificial insemination station in the United States could meet the new requirement as so written. On January 15th, we sent a letter to Dr. Winegar, which is attached with the new requirements. We also phoned Dr. Winegar at this time to advise him of the need for his help or the help of his office in negotiating the proposed new requirements. The following day a letter was sent to Bill Durfey of the NAAB with copies of the requirements and telex correspondence. On January 24th, our agents advised us that the Taiwanese had sent the new health requirements to the USDA on January 13th.

I do not know the date their January 13th message was received by APHIS, but certainly our copies of the health requirements should have been in APHIS's office no later than the 20th and the ones from Taiwan by then as well. On February 3rd, a letter was sent from Mary Pavelko to Dr. Faise concerning swine semen requirements. On February 14th, the Taiwanese advised our agent that they had received no message from the USDA/APHIS. On February 18th we asked Bill Durfey to follow-up his contacts with Dr. Winegar and see what was holding things up. On the latter part of February we advised our agents of the health regulations which the U.S. Cooperatives could meet (and I'm sure would also be met by the private organizations such as American Breeder Service and Landmark Genetics - formerly Carnation Genetics).

In the absence of any communique from APHIS, our agents spoke with the officials in Taiwan and were advised on February 21st that they would not accept the health proposals we had made. On March 3rd, our agents again strongly suggested that the USDA contact Taiwan vets to resolve the problem as soon as possible.

In the meantime, our pending orders for semen were accumulating, but could not be shipped. This represents lost markets which cannot be replaced, because those cows will be bred to semen from other sources, especially our Canadian competitors who can sell into these markets without U.S. competition in times like this. On March 5th, a follow-up letter was sent to Dr. Winegar. On March 10, we received another telex from our agents again asking us to urge the USDA to contact their veterinary officials. On March 10th we tried to call Dr. Winegar with no success. On March

12th, we reached Dr. Winegar and requested that APHIS send an immediate reply to Taiwan. On March 17th a telex from our agents suggested that the USDA and Taiwan veterinarians meet. On March 18th another letter was sent to Dr. Winegar requesting follow-up. On March 24th, the Taiwanese authorities sent inquiries to Japan, Australia, and Canada to see if they can meet the health requirements. We have no question that at least some of these countries could meet these requirements, thereby pre-empting some of our market or all of our market.

I have only highlighted the key items from the chronological sheet of events. I'm sure you have had contacts from NAAB and very likely from ABS and Landmark Genetics.

We have had many excellent contacts and assistance from Dr. Winegar over the years, and have found him responsive to our problems. However, there appears to be a serious breakdown in the follow-up now coming from APHIS. I see no excuse that it should take this long for something to be resolved, when it is important for U.S. exports. Recently, when we have tried to reach Dr. Winegar we have been advised that he is away on training programs. We do not find similar follow-up by the other people in the office in Dr. Winegar's absence, and it is our impression that he is unable to keep up with his training programs and other regular duties. Again, we respect his past help, and in the current situation we do not feel it is his fault that no action has been taken.

In the hopes that we may be wrong and that action was indeed taken, I hereby request to have copies of all correspondence between your organization and the Taiwanese concerning bovine and swine semen since January 1, 1986. I request this directly from you rather than under "The Freedom of Information Act" since I hope that upon reviewing it you will find that what we have said is true and take appropriate action. When we requested the similar materials concerning the Great Britain negotiations a few years ago, I think it was quite evident that there were unreasonable lengths of time taken to reply to requests from foreign government veterinarians or from people within our own industry.

I am leaving today on a three week trip and, therefore, would request that you direct any correspondence or questions to my Executive Vice-President, Mr. Russel J. Berna. We look forward to receiving the requested material and your comments as quickly as possible, and hope that you can illustrate to me that this is not a return to the tremendous problems which our industry had with your organization in the past years.

Respectfully,

Willard G. Clark, President.
